



**GOSPORT**  
Borough Council

# **STATEMENT OF ACCOUNTS**

**2020/21**



## **STATEMENT OF ACCOUNTS 2020/21**

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# NARRATIVE REPORT

This narrative report is divided into four sections

1. An overview of Gosport
2. A summary of the financial performance for the year
3. An explanation of the financial statements
4. Outlook and key issues

## 1. GOSPORT AREA AND ORGANISATION OVERVIEW

This report provides a detailed summary of the financial performance of Gosport Borough Council for the financial year 2020/21.

### **Covid-19 Pandemic**

The 2020/21 financial year was dominated, of course, by the Covid-19 emergency and the impact it had (and continues to have) both on the Council and the Borough more generally.

In line with Government guidance, at the end of March 2020, we closed the Town Hall to residents and to the vast majority of our staff. Our IT Function was able to rapidly procure and deploy hardware to enable 86% of our workforce to be able to work from home and, crucially, continue to deliver our essential services. Indeed, despite the incredibly testing times we have had no serious disruptions or issues with any individual services despite, in some cases, there being a vastly increased demand for services

Gosport Borough Council has been playing a critical role in helping to lead the local response to COVID19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF) and others. The aim has been to save lives, protect the NHS, ensure our residents are protected, and help support those residents who need to be shielded as part of particularly vulnerable groups in the community and that crucial public services continue to operate.

The Council responded quickly following the emergency announcement and subsequent restrictions imposed on 23 March 2020 and continuing during 2020/21 and has operated on an emergency footing, via the established procedure of Gold and Silver Command structures. Staff were identified and re-deployed into emergency response activities.

All our main services continued to be provided throughout the pandemic with the majority of staff being equipped to work from home within a matter of weeks.

### Financial Impact on the Council

The Covid pandemic impacted the Council's finances through a combination of increased cost and a reduction in income.

A summary of the financial impact from Covid-19 on the Council is summarised in the table below.

In response to the Government 'Everybody In' directive as a result of the pandemic GBC procured 30 welfare Cabins from Bunkabin, which were placed at our Walpole Car Park in order to keep everybody safe. These were procured at short notice as our normal resources for emergency accommodation were either not available as they had closed due to the pandemic or those that were available were already in use and therefore we didn't have enough capacity to meet the demand.

126 individuals were housed as a result of the 'Everybody In' directive. Of these, 60 were placed at the pods. Whilst placed at the pods they had daily visits from GBC Housing Needs & Advice Team as well as 24 hour security presence. These daily visits enabled the officers to build professional relationships with each occupant to ensure they engaged and remained engaged with support services. They were kept up-to-date with the pandemic and practiced safe lockdown measures as well as harm reduction with substance misuse and registering with a GP (which has then enabled a successful vaccination programme to be rolled out). This approach helped the Team to understand

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what move-on options would suit individuals and as a result we have successfully moved on 33 individuals into either supported accommodation, social housing or into the private rented sector. As part of these move-on's some individuals have completed successful detox programmes as well remained actively engaged with the agencies previously involved at the pods to ensure a smooth transition into their next accommodation.

The Council provided significant financial support to Places Leisure the operator of Gosport Leisure Centre to ensure they could continue to deliver leisure services to our residents after the lockdown.

The financial implications of COVID-19 were captured and reported regularly to the Ministry for Housing, Communities and Local Government (MHCLG) during the year.

Government financial support has been provided through a number of government grants

- non ring-fenced grants recognising Council's faced additional costs and responsibilities arising from Covid 19
- Specific Government Grants
  - Sales Fees and Charges Compensation Scheme : Government has agreed to partially fund lost income from sales, fees and charges, with the Council meeting the first 5% and then 25% of the remaining loss with central government funding the difference
  - Leisure Centre Support Grant: To provide financial support to privately operated leisure centres forced to close and operate under social restrictions during periods of lockdown.

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| <b>Financial Impact Covid 19 2020-2021</b>                      | <b>Outturn<br/>£'000s</b> |
|---|---------------------------|
| <b>Additional Costs</b>   |                           |
| Rough Sleepers / Homelessness - net cost after universal credit | 881                       |
| Leisure Centre Support  | 622                       |
| Other Public Health   | 61                        |
| Test, Track & Trace   | 43                        |
| Remote working  | 42                        |
| All other cost areas  | 80                        |
| Unachievable Savings  | 42                        |
| <b>Total</b>  | <b>1,771</b>              |

| <b>Income Losses</b>   |            |
|------------------------|------------|
| Car Parks              | 418        |
| Council Tax court fees | 219        |
| Leisure Centre fee     | 119        |
| Planning               | 65         |
| All other income areas | 115        |
| <b>Total</b>           | <b>936</b> |

|   |              |
|---|--------------|
| <b>Financial Impact 2020/21 (before Government Funding)</b> | <b>2,707</b> |
|---|--------------|

| <b>Government Funding</b>   |                |
|---|----------------|
| Sales Fees & Charges compensation grant (75% compensation after deduction of a 5% allowance from budgets) | (624)          |
| Covid 19 Local Government Support Grant tranches 2-4 (Tranch 1 £44,000 was received in 2019/20)           | (1,284)        |
| Covid 19 New Burdens Grant  | (210)          |
| Leisure Centre Support Grant  | (114)          |
| Next Steps Accommodation Programme Grant  | (88)           |
| All other Covid related grants  | (385)          |
| <b>Total Government Funding</b>   | <b>(2,705)</b> |

|  |          |
|--|----------|
| <b>General Fund Net Financial Impact 2020/21</b> | <b>2</b> |
|--|----------|

Without government support the financial impact to the Council would have been £2.7million with the consequence that the Council's useable reserves would have been significantly reduced. The longer term impact on business rates and council tax are not yet clear as some council tax payers remain on furlough and businesses are in receipt of significant reliefs from business rates.

## **Other Areas Impacted by Covid 19**

During 2020/21 the provision of Council Services was set against the need to provide several additional key services to enable a resilient response to Covid-19.

### Support to Local Businesses

As part of the government's response to Covid-19 financial support was available to local businesses during lockdown and social restrictions by a series of business support grants. Local Authorities were asked to administer the various grant schemes on behalf of central government to receive applications and make the payments to eligible businesses.

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The Council moved very quickly to set-up a sign-posting service within our Economic Development area that would be able to answer any queries local businesses had about the range of support mechanisms that the Government had made available regarding Covid.

We reinforced our Tax team with additional staff so we could rapidly process hundreds of claims for business rate grants. This included a broad communications campaign to make businesses and other local organisations aware of the grants; new processes and systems to enable rapid bulk payments and also the Council underwriting the cost of 'same day' payments

During 2020/21 the Council made over 3,000 grant payments to local businesses covering 12 different grant schemes amounting to £17.3 million. Apart from the government funded discretionary grant scheme (£.721 million) these payments do not appear in the Council's financial statements as for the majority of the business support grant schemes the Council was acting as an agent of Central Government.

At the 31<sup>st</sup> March 2021 the Council held £6.5 million of unspent government grant which will support businesses in 2021/22 or be returned to Central Government.

## Welfare Support Role

The Council's Covid Gold Team co-ordinated a Borough wide response to the Covid emergency with all staff contributing from day one by assisting with the welfare response which was provided 7 days per week to our most vulnerable residents. Food was collected, stored and distributed in the first few weeks from the Town Hall until the Gosport Food Partnership was formed of all food banks and other voluntary organisations in Gosport.

Staff worked on financial support packages in the form of grants and emergency payments or manning the Community Helpline which was up and running within the first few days of the emergency. Within the first week staff volunteered to deliver leaflets to all our 38,000 properties ensuring all residents had a number to call for help with food and medicine delivery should they not be able to access our website, the Council's website was updated daily to ensure residents had the most up to date contact numbers and staff volunteered for duty over the weekend periods delivering food, medicine or just a friendly chat to those who were isolated.

The Council has been involved directly or worked in partnership to support a number of welfare related initiatives which are summarised below.

- Implemented a local Covid 19 test centre for a six week period commencing 22<sup>nd</sup> February 2021.
- Supported low income isolating residents with £500 grants to help alleviate financial hardship, over 500 applications were processed.
- Administered a Council Tax Covid-19 hardship fund to provide all eligible recipients £150 off their annual council tax bill, processing 3485 additional Council Tax Awards
- Arranged 391 referrals for food assistance with the Gosport Voluntary Action Food Bank
- Arranged nearly 600 medicine deliveries
- Received 428 referrals from HCC to assist vulnerable residents

## **Delivery of Council priorities in 2020/21**

The Council has a number of key priorities and functions which it undertakes on behalf of the residents of the Borough of Gosport. These include:

- Raising aspirations in the Borough;
- Enhancing the environment in the Borough;
- Developing the local economy;
- Empowering our residents; and
- Delivering effective services.

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Despite the main focus of the year being our response to the Covid-19 pandemic progress continues to be made against each of these areas as detailed below:

## Raising aspirations

- The Council has long supported the Summer Passport scheme for young people in the Borough. Because of the pandemic there was a virtual offer for Gosport Summer Passport this year.
- The Council delivered safe, virtual VE, VJ and Armed Forces Day commemorations along with a remembrance service to note the important role the armed forces community continues to play in our Borough and a Virtual Safer Gosport Community Day promotion week highlighting key successes of statutory and voluntary sector organisations.
- The Council achieved the Gold Award from the Defence Employers Recognition Scheme in 2020 for our work to recognise and support our employees and Borough residents who are members of the armed forces community, recognising their service and sacrifice both past and present.

## Enhancing the environment

- This financial year has seen the Council introduce a Climate Change board to formulate policies and initiatives in relation to climate change.
- The Council has employed an officer dedicated to the climate change agenda, has committed to installing solar panel and battery technology to Gosport Leisure Centre; investing in technology for electric vehicles; rewilding parts of the Borough to attract flora and fauna; as well as our tree planting programme having planted 1000 trees this year.
- The Council has also made the decision to bring in-house its Grounds Maintenance services; and to invest in this service via better training, new equipment and more weed-spraying which will further enhance the environment of our Borough.

## Developing the local economy

- Working with the County Council we have successfully submitted a combined Transforming Cities bid for £5.2million which will see considerable further investment in our local infrastructure. For Gosport, this will be focussed around improved facilities at our main public interchange in the town centre;
- Some of the High Street Heritage Action Zone projects have already been completed including the mapping of property ownerships in both the High Street and Stoke Road, plus a Markets Development Study recommending actions to reinvigorate the current High Street Market and the pace of delivery will pick up with the arrival of an experienced Project Manager and the appointment of a High Street Communications Officer.
- We continue to invest, with support from our partnership groups, in our Flood Defences across the Borough. We have pushing forward with the flood defence schemes for Alverstoke and Forton and the repairs to Stokes Bay seawall due to storm Bella over the Christmas period.
- A new Economic Development Strategy that will help guide the Council and its Partners investment plans over the next ten years has been delivered.

## Empowering our residents

- The Council has identified a large number of Council owned sites that, over the next three years, could add to our existing stock. Work continues to develop a housing project to enable this house building programme and we have earmarked £7 million over the next three years to enable a build programme;

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- Through working with our partners at Vivid and Two Saints, we are about to open a 5 bed HMO for individuals with low support needs, as well as three properties to use as a Housing First model for more complex, entrenched rough sleepers. A successful Next Steps Accommodation Programme bid secured £200,000 to help fund some of this work, and monies from the Rough Sleeper Initiative has been used to employ an Accommodation Procurement Officer and Complex Needs Navigator to support those with more complex needs.
- The Council also recognises the vital contribution that volunteering groups make in Gosport. We have routinely increased our financial contributions to them each year; for 2020/21 we increased the resources provided by 5%.

## Delivering effective services

- As outlined in this report; the Council has delivered effective and secure stewardship of its financial affairs and has set a balanced budget with appropriate level of reserves for the next financial year despite the financial pressures arising from Covid-19;
- The Council seeks to enhance income generation from existing or new investments such as the property portfolio and financial investments; the Council's Capital Investment in the Alver Valley which will deliver new rental streams next Financial Year and the introduction of advertising sponsored media through the Gosport Commercialisation programme

## Council Structure

The Council has 34 local councillors. The current political structure of the council is:

- 19 Conservatives
- 14 Liberal Democrats
- 1 Labour

Full Council meets every two months to review strategic issues and decisions affecting the entire Council. The Council is supported by a series of Boards and Committees that allow councillors to review issues and make decisions in areas of particular detail. To improve the Council's democratic accountability two new boards were established namely a Climate Change Board and a Housing Board. These Committees are:

- The Policy and Organisation Board covering all issues of Council wide policy and strategy as well as any key financial and procurement considerations;
- The Community Board which covers issues associated with Council services regarding Waste, Leisure, Open Spaces and environmental issues;
- The Housing Board which covers issues associated with the Council's housing stock, Housing Revenue Account (HRA) financial oversight and issues with General Fund Council Housing services including Homelessness and Private Sector Housing
- The Economic Development Board which reviews particular opportunities for development and job creation across the Borough;
- The Climate Change Board which formulates policies and initiatives in relation to Climate Change
- The Regulatory Board which reviews proposed planning applications and issues within the Borough; and
- The Standards and Governance Board which reviews the corporate governance arrangements of the Council, the annual Audit Plan and other items of key governance.

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- The councillors are supported by officers of the Council. The Council Senior Management Team is provided by Portsmouth City Council; the Chief Executive and Borough Treasurer are shared between the two authorities.

## 2. Financial Narrative

In undertaking this important work, the Council also needs to ensure it operates with a system of sound financial management and stewardship. Not least as the vast majority of funding that the Council receives is provided by Gosport residents either in the form of Council Tax or Business Rates.

For 2020/21, the Council has had a strong financial performance despite the impact of the Covid-19 pandemic; ensuring investment in key services are maintained, capital schemes to develop the Borough are funded in the context of significant financial uncertainty in Local Government as a sector.

The Council reviews its financial performance in a number of different ways:

- Performance of the General Fund (this is the funding the Council has for its day-to-day activities which is predominantly funded by Council Tax and Business Rates);
- The extent to which the Council holds adequate financial Reserves (holding reserves enables the Council to fund future specific projects or services and also to ensure it has a financial buffer in the event of an unexpected financial issue);
- Performance of its Housing Revenue Account (HRA) (the HRA is where income and costs for our 3,000+ social housing units is monitored, including specific HRA reserves);
- Performance of the Council's Capital Programme (as well funding for day-to-day services, the Council undertakes in the region of £8million per annum of capital investment in its services, social housing stock, economic opportunities and other development plans); and

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## General Fund

The following table shows outturn against Budget, including how the General Fund is financed and the main reserves. It is presented in the Council's Budget Book format (which mirrors the Council's decision making structure) as opposed to the statutory reporting format in the following financial statements.

The General Fund underspent by £1,354,000 during 2020/21, this was transferred to the Revenue Financing Reserve;

In Summary the underspend can be explained as follows

- Net Cost of Covid-19 Pandemic £508,000 less than forecast; mainly due to
  - Non-specific government grants being greater than forecasted £533,000
  - Lost income after government grant not being as great as expected £92,000.
  - Cost pressures on services being greater than forecast -£117,000 mainly housing rough sleepers and homelessness.
- The need to carry forward activity to 2021/22 that was unable to be completed in 2020/21, amounting to £245,050. This is largely work associated with the completion of the repairs to Stokes Bay Sea Defence wall, a range of Economic Development initiatives and number of open space schemes.
- Staffing Costs – vacancies etc. £120,000
- All other service underspending £481,000; mainly in the following areas
  - Leisure & Culture Open Spaces £95,000
  - Net Cost of Benefits Paid £77,000
  - Net Cost of Waste Collection / Recycling £53,000
  - Additional Government Grants £37,000
  - Additional income from Portchester Crematorium £30,000
  - All other variations across services £189,000

The table also shows the transfer to and from reserves during the year, in particular:

- Revenue Financing Reserve – under spend compared to revise budget during 2020/21 including budget carry forwards to 2021/21
- Stability and Resilience Reserve - £2.546 million was transferred to this reserve during 2020/21 which has been funded by government S31 grant. This is not an additional resource as it is required to fund in 2021/22 an exceptional deficit balance of £2.673 million included within the Council's share of the business rates retention collection fund balance at 31/3/2021. The arose due to additional government business rate relief granted during lockdown compensated to Local Authorities by way of S31 grant received by the Council.
- Income Compensation Reserve – funded by way of Tax Income Compensation grant from the government received to recognise irrecoverable losses in business rates income in respect of 2020-21 due to Covid-19. The reserve will be used to part fund the impact in 2021/22 and beyond on the general fund of the 2020/21 collection fund deficit that arose due to the Covid-19 pandemic.
- Community Infrastructure Levy receipts transferred to / (from) reserve during the year;

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| GENERAL FUND - OUTTURN  | REVISED<br>BUDGET<br>2020/21<br>£'000 | ACTUAL<br>31-Mar-21<br>£'000 | VARIANCE<br>£'000 |
|---|---------------------------------------|------------------------------|-------------------|
| <b>GENERAL FUND BUDGET</b>  |                                       |                              |                   |
| Community Board   | 6,707                                 | 5,992                        | (715)             |
| Housing Board   | 876                                   | 1,044                        | 168               |
| Economic Development Board  | 1,005                                 | 606                          | (399)             |
| Policy and Organisation Board   | 3,358                                 | 2,804                        | (554)             |
| <b>TOTAL NET EXPENDITURE</b>  | <b>11,946</b>                         | <b>10,446</b>                | <b>(1,500)</b>    |
| <b>REVENUE CONTRIBUTION TO CAPITAL</b>  | <b>487</b>                            | <b>463</b>                   | <b>(24)</b>       |
| <b>TRANSFER TO/(FROM) RESERVES</b>  |                                       |                              |                   |
| Revenue Financing Reserve   | (542)                                 | 812                          | 1,354             |
| Stability and Resilience Reserve  | 2,794                                 | 2,546                        | (248)             |
| Income Compensation Reserve   | 440                                   | 382                          | (58)              |
| Capital Grants Unapplied CIL  | -                                     | 248                          | 248               |
| Revenue Reserve for Capital   | -                                     | 321                          | 321               |
| Other Earmarked Reserves  | -                                     | (4)                          | (4)               |
| <b>BUDGET TOTAL</b>   | <b>15,125</b>                         | <b>15,214</b>                | <b>89</b>         |
| <b>FINANCED BY</b>  |                                       |                              |                   |
| <b>Council Tax</b>  | <b>(6,216)</b>                        | <b>(6,216)</b>               | <b>-</b>          |
| <b>Government Grants</b>  | <b>(1,775)</b>                        | <b>(2,137)</b>               | <b>(362)</b>      |
| <b>Business Rates Retention</b>   | <b>(7,134)</b>                        | <b>(6,861)</b>               | <b>273</b>        |
|   | <b>(15,125)</b>                       | <b>(15,214)</b>              | <b>(89)</b>       |
| <i># (Red) figures are income &amp; in the variance column indicate an underspending or additional income</i> |                                       |                              |                   |

| GENERAL FUND - MAIN REVENUE RESERVES | ACTUAL<br>01-Apr-20<br>£'000 | ACTUAL<br>31-Mar-21<br>£'000 | VARIANCE<br>£'000 |
|--------------------------------------|------------------------------|------------------------------|-------------------|
| General Fund Working Balance         | (1,000)                      | (1,000)                      | 0                 |
| Revenue Financing Reserve            | (4,092)                      | (4,904)                      | (812)             |
| Stability and Resilience Reserve     | (1,828)                      | (4,374)                      | (2,546)           |
| Homelessness Support Grant Reserve   | (595)                        | (595)                        | 0                 |
| Revenue Reserve for Capital          | (497)                        | (632)                        | (135)             |

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## Housing Revenue Account

The following table summarises the movement in useable reserves arising from the Housing Revenue Account (HRA) outturn compared to the approved budget.

| <b>HOUSING REVENUE ACCOUNT - OUTTURN</b>  | <b>REVISED<br/>2020/21<br/>£'000</b> | <b>ACTUAL<br/>2020/21<br/>£'000</b> | <b>VARIANCE<br/>£'000</b> |
|---|--------------------------------------|-------------------------------------|---------------------------|
| Net (Surplus) / loss to New Build & Loan Repayment Reserve  | 261                                  | (246)                               | (507)                     |
| Transfer (to) / from the Major Repairs Reserve  | (1,028)                              | (812)                               | 216                       |
|   | <b>(767)</b>                         | <b>(1,058)</b>                      | <b>(291)</b>              |
| <i># (Red) figures are income &amp; in the variance column indicate an underspending or additional income</i> |                                      |                                     |                           |

The improved position of the New Build Reserve (£507,000) compared to budget can be split between capital financing and operational activities.

The approved 2020/21 revised HRA capital programme assumed a contribution from the HRA revenue account and new build reserve of £665,000 whereas the actual contribution required was £196,000 producing an in year favourable variation of £469,000. There was a favourable variation of £38,000 from operational activities.

A transfer of £812,000 was made to the Major Repairs Reserve compared to an expected transfer of £1,028,000. This transfer is the difference between depreciation charged to the HRA and the capital expenditure subsequently financed from the MRR reserve. The reduction represents an increase in Improvements to Housing Stock schemes being greater than forecasted.

Useable Reserves available to the HRA are summarised below.

| <b>HRA - REVENUE RESERVES</b>      | <b>ACTUAL<br/>01-Apr-20<br/>£'000</b> | <b>ACTUAL<br/>31-Mar-21<br/>£'000</b> | <b>VARIANCE<br/>£'000</b> |
|------------------------------------|---------------------------------------|---------------------------------------|---------------------------|
| Revenue Account Balance            | (992)                                 | (992)                                 | 0                         |
| New Build & Loan Repayment Reserve | (3,498)                               | (3,744)                               | (246)                     |
|                                    | <b>(4,490)</b>                        | <b>(4,736)</b>                        | <b>(246)</b>              |
| <b>HRA - CAPITAL RESERVES</b>      | <b>ACTUAL<br/>01-Apr-20<br/>£'000</b> | <b>ACTUAL<br/>31-Mar-21<br/>£'000</b> | <b>VARIANCE<br/>£'000</b> |
| Capital Receipts New Build         | (1,189)                               | (1,115)                               | 74                        |
| Major Repairs Reserve              | -                                     | (812)                                 | (812)                     |
|                                    | <b>(1,189)</b>                        | <b>(1,927)</b>                        | <b>(738)</b>              |

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## Capital Programme

A summary of capital expenditure for 2020/21 is detailed in the table below, presented in the Budget Book format. The programme overall underspent by £2,598,000, major scheme variations are set out in the table below.

| SCHEME                                      | REVISED<br>2020/21<br>£'000 | ACTUAL<br>2020/21<br>£'000 | VARIANCE<br>£'000 | SLIPPAGE<br>to 2021/22<br>£'000 |
|---|-----------------------------|----------------------------|-------------------|---------------------------------|
| <b>BY BOARD</b>                             |                             |                            |                   |                                 |
| Community Board - Housing (HRA)             | 2,950                       | 2,754                      | (196)             | -                               |
| Housing Board                               | 600                         | 367                        | (233)             | -                               |
| Community Board                             | 2,794                       | 1,105                      | (1,689)           | 1,714                           |
| Economic Development Board                  | 431                         | 173                        | (258)             | 264                             |
| Policy & Organisation Board                 | 319                         | 97                         | (222)             | 206                             |
|   | <b>7,094</b>                | <b>4,496</b>               | <b>(2,598)</b>    | <b>2,184</b>                    |
| <b>BY MAJOR SCHEME</b>                      |                             |                            |                   |                                 |
| Improvements to Housing Stock (HRA)         | 2,000                       | 2,216                      | 216               | -                               |
| Purchase of Properties (HRA)                | 850                         | 538                        | (312)             | -                               |
| Coastal Flood Schemes (All)                 | 792                         | 355                        | (437)             | 437                             |
| Disabled Facilities Grant                   | 600                         | 367                        | (233)             | -                               |
| Grounds Maintenance - Purchase of Equipment | 460                         | 359                        | (101)             | 101                             |
| Spash Park Stokes Bay                       | 250                         | 0                          | (250)             | 250                             |
| Stokes Bay Seawall                          | 250                         | 0                          | (250)             | 250                             |
| Alver Valley Country Park                   | 186                         | 218                        | 32                | -                               |
| Leisure Centre Solar Panels                 | 188                         | 0                          | (188)             | 188                             |
| IT Systems Upgrades                         | 160                         | 61                         | (99)              | 99                              |
| Walpole Park - Inclusive Play Zone          | 135                         | 0                          | (135)             | 135                             |
| Tukes Avenue Open Space - Play Zone         | 120                         | 0                          | (120)             | 120                             |
| DSO Depot                                   | 120                         | 0                          | (120)             | 120                             |
| New Build (HRA)                             | 100                         | 0                          | (100)             | 0                               |
| Essential Paving Improvements and Upgrades  | 100                         | 0                          | (100)             | 100                             |
| Landing Stage                               | 100                         | 90                         | (10)              | 10                              |
| All other schemes                           | 683                         | 292                        | (391)             | 374                             |
|   | <b>7,094</b>                | <b>4,496</b>               | <b>(2,598)</b>    | <b>2,184</b>                    |

# (Red) figures in the variance column indicate an underspending

# NARRATIVE REPORT

## 3. THE FINANCIAL STATEMENTS

The Statement of Accounts sets out the Council's financial position at 31 March 2021 and a summary of its income and expenditure in the year to 31 March 2021. It is, in parts, a complex document which is prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21 (the Code) which is underpinned by International Financial Reporting Standards (IFRS). It comprises of core and supplementary statements together with disclosure notes and is subject to external audit. These are summarised over four headings below:

### a. Core financial statements

- **Comprehensive Income and Expenditure Statement (CI&ES)**

This statement records all of the Council's income and expenditure for the year. The top half of the statement provides an analysis in line with the Council's reporting structure and the bottom half includes corporate transactions and funding.

The content shows the service cost in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and rents. Authorities raise taxation and rents to cover expenditure in accordance with statutory requirements and this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

- **Movement in Reserves Statement (MIRS)**

This statement summarises the change in the Council's reserves over the year – with the reserves being divided into 'usable reserves' (i.e. those that can be used to fund expenditure) and 'unusable reserves' (i.e. those which are set aside for specific purposes)

It includes the adjustments needed to show the Council's net expenditure and income in line with statutory requirements as reported to the Council's management and members

- **Balance Sheet**

The Balance Sheet provides a snapshot of the Council's assets, liabilities, cash and reserves at the year end date.

- **Cash Flow Statement**

The Cash Flow Statement shows the reasons for the changes in the Council's cash balances over the year by analysing them over operating, investing and financing activities.

### b. Notes to the financial statements

These provide supporting information and analysis including detail about the Council's accounting policies which underpin the reported figures.

*The Expenditure and Funding Analysis (E&FA) note underpins the CI&ES and the MIRS – the latter reconciling the CI&ES to the Council's statutory funding arrangements. The E&FA shows the reconciling adjustments from the MIRS in more detail against the Council's main reporting structure, as included in the CI&ES, to show the annual change in usable reserves*

# NARRATIVE REPORT

## c. Supplementary financial statements

- Housing Revenue Account (HRA) and notes

The Housing Revenue Account (HRA) reflects the statutory obligation to maintain a separate revenue account for income and expenditure on council housing and related activities in accordance with the Local Government and Housing Act 1989. The notes provide further supporting information.

- Collection Fund and notes

The Collection Fund is the statutory account that billing authorities must maintain separately from the rest of their accounts. It summarises council tax and business rate transactions for the Borough, County Council, Police & Crime Commissioner, Fire & Rescue Authority and Central Government. The notes provide further supporting information.

## d. Important governance statements

- Statement of Responsibilities

This sets out the Council's and the Chief Financial Officer's responsibilities in relation to the administration of the Council's affairs.

- Annual Governance Statement

The Accounts and Audit Regulations 2015 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

## 4. KEY ISSUES AND OUTLOOK

### Key financial figures included in the statement

- Pensions liability

The Balance Sheet shows an increase in the net pension liability of £3.360 million during 2020/21. This is mainly due to an increase in pension liabilities of £21.13 million during the year mainly arising from actuarial assumptions increasing the estimated pension liabilities i.e. reduced discount rate and an increase in both CPI Inflation rate and the rate of Salary increases. The increase in liabilities has been partially offset by an increase in the fair value of assets £17.770 million. The liability is a volatile figure and has a tendency to vary by several millions from year to year depending on actuarial assumptions and government guidance. The Hampshire Local Government Pension Fund is subject to triennial valuations and employee and employer contributions are adjusted accordingly to ensure a fully funded pension position over the life of the fund. The Council's budget and forward projections fully provide for required pension fund contributions.

| 31-Mar-20<br>£'000                    | 31-Mar-21<br>£'000 |
|---------------------------------------|--------------------|
| <b>(40,509) Net Pension Liability</b> | <b>(43,869)</b>    |

# NARRATIVE REPORT

- **Borrowing and Cash**

The table below summarises the Council's net borrowing position at the year end. Local Authority treasury management functions are closely regulated and the Council complies with all managerial and reporting guidelines

| 31-Mar-20<br>£'000                     | 31-Mar-21<br>£'000 |
|--|--------------------|
| 5,512 Short Term Investments           | 2,000              |
| 5,860 Cash and Cash Equivalents        | 9,262              |
| (16,167) Short Term Borrowing          | (12,146)           |
| (55,850) Long Term Borrowing           | (52,750)           |
| <b>(60,645) Net Borrowing position</b> | <b>(53,634)</b>    |

- **Capital Financing Requirement**

The Council's capital financing requirement (or the underlying need to borrow) is essentially a measure of the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is set out below. This is the combined figure for both the general fund and housing revenue account.

| 31-Mar-20<br>£'000  | 31-Mar-21<br>£'000 |
|---|--------------------|
| <b>82,475 Capital Financing Requirement</b>                   | <b>82,273</b>      |
| <i>Explanation of movement in the year</i>                    |                    |
| 768 Increase in need to borrow to fund capital expenditure    | -                  |
| - Decrease in need to borrow due to Minimum Revenue Provision | (202)              |

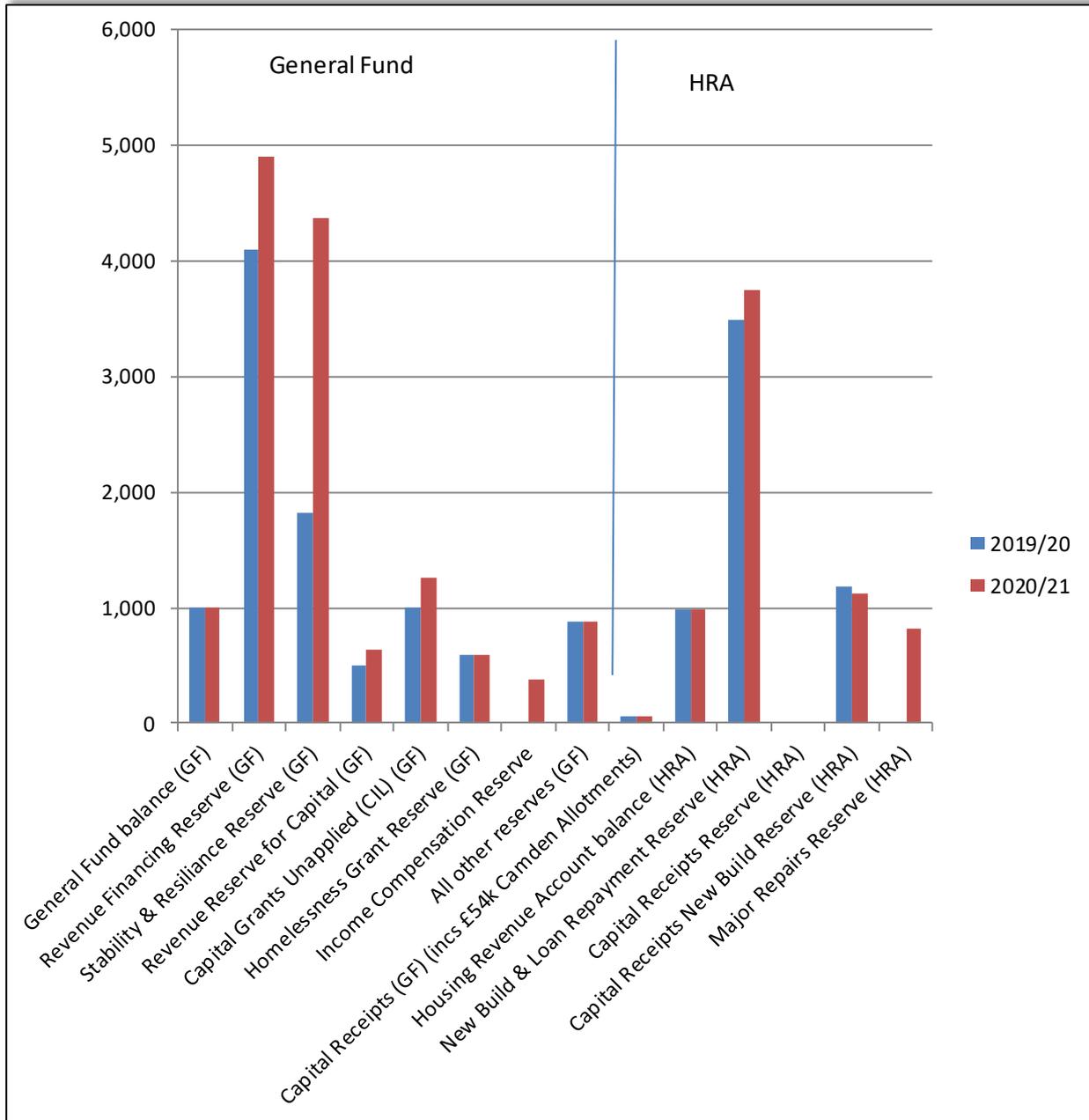
- **Resources**

The council's available reserves at the end of 2020/21 to meet both General Fund and Housing Revenue Account capital and revenue expenditure plans are summarised below:

| 31-Mar-20<br>£'000                    | 31-Mar-21<br>£'000 |
|---------------------------------------|--------------------|
| <b>Revenue</b>                        |                    |
| (8,400) General Fund (GF)             | (12,135)           |
| (4,490) Housing Revenue Account (HRA) | (4,736)            |
| <b>Capital</b>                        |                    |
| (1,557) General Fund (GF)             | (1,940)            |
| (1,189) Housing Revenue Account (HRA) | (1,927)            |
| <b>(15,636)</b>                       | <b>(20,738)</b>    |

# NARRATIVE REPORT

- The Council's year on year balances on available reserves (£'000)**



In addition the Council has £3.616 million of developers' contributions and other grants and contributions available to spend at 31st March 2021 (£2.584 million at 31 March 2020).

These are categorised as 'Receipts in Advance – Capital Grants' as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

# NARRATIVE REPORT

## Outlook

### • General Fund (GF)

Over the next 3 years, the Council has a forecast budget deficit to remedy amounting to £2.161m. There remains significant uncertainty regarding the future forecast which is estimated could vary between +/- £0.5m arising from the following:

Government Reviews affecting funding of Local Government

- The outcome of the forthcoming Comprehensive Spending Review
- The outcome of the Fair Funding review
- The outcome of the Business Rate Retention review

Health of Economy and other cost pressures

- The length and depth of any recession and the impact on employment arising from COVID-19 and therefore the extent to which Council Tax Income and Business Rates Income will rise or fall
- The extent to which a Pensions deficit may arise on the Local Government Pension Scheme following the next triennial revaluation (and currently estimated at £0.3m per annum)

### Our Response (Strategy)

The Council has a strong track record of being able to live within its means, make savings and secure financial resilience. Adequate reserves are a necessary requirement of financial resilience enabling any in-year deficits between funding and spending to be “smoothed out” over time as well as enabling investments to be made that will improve the financial sustainability of the Council in the future. Given the widely expected funding reductions to District Councils over the coming years, the Council’s known future cost pressures and the desire to support the Borough’s recovery from the pandemic, the adequacy and targeted use of reserves has never been more important.

Looking forward, the Council’s financial strategy will:

- Continue to pursue efficiency by operating zero based budgeting and undertaking regular contract reviews.
- Develop partnership working to realise savings and service resilience; which will see further savings in the Environmental Health Partnership with Fareham
- Enhance income generation from existing or new investments such as the property portfolio and financial investments; the Council's Capital Investment in the Alver Valley which will deliver new rental streams next Financial Year and the introduction of advertising sponsored media through the Gosport Commercialisation programme.
- Invest in the Borough for regeneration to stimulate employment and also to increase funding by improving the Business Rate Base and the Council Tax Base for the Council; this will also positively improve prosperity for the Borough generally and reduce the dependency on Council Services

### Conclusion

The Council faces a challenging period over the next three years to reduce its budget deficit and to maintain sustainable high quality services to its residents. Significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. The level of the Council’s useable reserves puts the council on a sound footing to meet the financial challenges ahead.

# NARRATIVE REPORT

- **Housing Revenue Account (HRA)**

Notable points from the latest HRA Business Plan and budget report include

- Over the 30 year period, the Business Plan is forecast to remain in balance with HRA Reserves at the end of the period amounting to £70 million. It will provide a smooth profile of repairs and maintenance funding at average levels of £7.8 million per annum, and takes into account key variables relating to social housing guidance on rent increases and forecast Right to Buy sales;
- Government policy on social rents have allowed increases of CPI +1% since April 2020 for the next five years. As a result of this rents increased by 1.5% in April 2021.
- Gross HRA borrowing at 31 March 2021 is £49.8 million. The HRA's capital financing requirement (underlying need to borrow) is £61.6 million and so the HRA is therefore presently under-borrowed by £11.8 million;
- The Council currently has three social house building schemes identified at a budgeted cost of £4.5m and these costs can be met from reserves and 1-4-1 RTB receipts with no additional borrowing being required. It is expected that these schemes will increase the housing stock by 11 houses and 20 flats.

- **Capital Programme**

The currently approved capital programme covers the four year period from 2020/21 to 2023/24 for both the GF and the HRA and is summarised below.

The programme will be updated following the 2020/21 outturn to incorporate any slippage, re-phasing and under or over spends.

|  | 2020/21      | 2021/22       | 2022/23      | 2023/24      | Total         |
|--|--------------|---------------|--------------|--------------|---------------|
|  | £,000        | £,000         | £,000        | £,000        | £'000         |
| <b>CAPITAL BUDGETS BY BOARD</b>          |              |               |              |              |               |
| COMMUNITY BOARD - HOUSING (HRA)          | 2,950        | 6,640         | 5,850        | 6,000        | 21,440        |
| COMMUNITY BOARD - HOUSING (GF)           | 600          | 600           | 600          | 600          | 2,400         |
| COMMUNITY BOARD - NON HOUSING            | 2,794        | 2,697         | 585          | 244          | 6,320         |
| ECONOMIC DEVELOPMENT BOARD               | 431          | 1,397         | 210          | 150          | 2,188         |
| POLICY & ORGANISATION BOARD              | 319          | 469           | 145          | 145          | 1,078         |
|  | <b>7,094</b> | <b>11,803</b> | <b>7,390</b> | <b>7,139</b> | <b>33,426</b> |
| <b>FUNDING</b>                           |              |               |              |              |               |
| DEPRECIATION, REVENUE AND RESERVES (HRA) | 2,950        | 6,640         | 5,850        | 6,000        | 21,440        |
| EXTERNAL GRANTS AND CONTRIBUTIONS        | 2,146        | 1,468         | 700          | 670          | 4,984         |
| REVENUE AND RESERVES (GF)                | 500          | 1,418         | 475          | 0            | 2,393         |
| CAPITAL RECEIPTS                         | 370          | 115           | 100          | 100          | 685           |
| BORROWING (GF)                           | 1,128        | 2,162         | 265          | 369          | 3,924         |
|  | <b>7,094</b> | <b>11,803</b> | <b>7,390</b> | <b>7,139</b> | <b>33,426</b> |

# STATEMENT OF RESPONSIBILITIES

## **The Authority's responsibilities**

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Councillor G. Burgess  
Chair of Policy and Organisation Board

## **The Chief Finance Officer's responsibilities**

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2021.

Mr Chris Ward  
Borough Treasurer, Section 151 officer

# FINANCIAL STATEMENTS

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (and rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

| Gross Exp<br>£'000 | 2019/20<br>Gross Income<br>£'000 | Net Exp<br>£'000 |  | Notes | Gross Exp<br>£'000 | 2020/21<br>Gross Income<br>£'000 | Net Exp<br>£'000 |
|--------------------|----------------------------------|------------------|--|-------|--------------------|----------------------------------|------------------|
| 8,721              | (2,226)                          | 6,495            | Community Board  |       | 9,764              | (2,398)                          | 7,366            |
| 2,495              | (2,088)                          | 407              | Housing Board  |       | 3,673              | (2,454)                          | 1,219            |
| 1,198              | (199)                            | 999              | Economic Development Board                                     |       | 1,306              | (231)                            | 1,075            |
| 27,452             | (22,761)                         | 4,691            | Policy and Organisation Board                                  |       | 27,024             | (22,260)                         | 4,764            |
| 12,316             | (14,783)                         | (2,467)          | Housing Revenue Account  |       | 13,009             | (15,006)                         | (1,997)          |
| <b>52,182</b>      | <b>(42,057)</b>                  | <b>10,125</b>    | <b>Cost Of Services</b>  |       | <b>54,776</b>      | <b>(42,349)</b>                  | <b>12,427</b>    |
|                    |                                  | 4,476            | Other Operating Expenditure                                    | 6     |                    |                                  | 2,552            |
|                    |                                  | 1,586            | Financing and Investment Income and Expenditure                | 7     |                    |                                  | 2,321            |
|                    | (11,764)                         |                  | Taxation and Non Specific Grant Income and Expenditure         | 8     |                    |                                  | (12,924)         |
|                    |                                  | <b>4,423</b>     | <b>Deficit on Provision of Services</b>                        |       |                    |                                  | <b>4,376</b>     |
|                    | (3,340)                          |                  | Surplus on revaluation of Property, Plant and Equipment assets | 25    |                    |                                  | (7,927)          |
|                    |                                  | 732              | Actuarial losses / (gains) on pension assets / liabilities     | 25    |                    |                                  | 1,566            |
|                    |                                  | <b>(2,608)</b>   | <b>Other Comprehensive (Income)</b>                            |       |                    |                                  | <b>(6,361)</b>   |
|                    |                                  | <b>1,815</b>     | <b>Total Comprehensive (Income)/Expenditure</b>                |       |                    |                                  | <b>(1,985)</b>   |

# FINANCIAL STATEMENTS

## Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments

|   | General Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major Repairs<br>Reserve<br>£'000 | Capital Grants<br>Unapplied<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 | Total Authority<br>Reserves<br>£'000 |
|---|----------------------------------|--|---|-----------------------------------|--------------------------------------|-----------------------------------|-------------------------------|--------------------------------------|
| <b>Balance at 31 March 2020</b>   | <b>(8,400)</b>                   | <b>(4,490)</b>                         | <b>(1,740)</b>                          | <b>0</b>                          | <b>(1,006)</b>                       | <b>(15,636)</b>                   | <b>(76,968)</b>               | <b>(92,604)</b>                      |
| <b>Movement in reserves during 2020/21</b>                                      |                                  |  |   |                                   |                                      |                                   |                               |                                      |
| Total Comprehensive Income and Expenditure                                      | 1,767                            | 2,609                                  |   |                                   |                                      | 4,376                             | (6,361)                       | (1,985)                              |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | (5,502)                          | (2,855)                                | (61)                                    | (812)                             | (248)                                | (9,478)                           | 9,478                         | 0                                    |
| <b>(Increase)/decrease in 2020/21</b>   | <b>(3,735)</b>                   | <b>(246)</b>                           | <b>(61)</b>                             | <b>(812)</b>                      | <b>(248)</b>                         | <b>(5,102)</b>                    | <b>3,117</b>                  | <b>(1,985)</b>                       |
| <b>Balance at 31 March 2021</b>   | <b>(12,135)</b>                  | <b>(4,736)</b>                         | <b>(1,801)</b>                          | <b>(812)</b>                      | <b>(1,254)</b>                       | <b>(20,738)</b>                   | <b>(73,851)</b>               | <b>(94,589)</b>                      |
|   | General Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Major Repairs<br>Reserve<br>£'000 | Capital Grants<br>Unapplied<br>£'000 | Total Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>£'000 | Total Authority<br>Reserves<br>£'000 |
| <b>Balance at 31 March 2019</b>   | <b>(8,393)</b>                   | <b>(4,604)</b>                         | <b>(2,365)</b>                          | <b>0</b>                          | <b>(862)</b>                         | <b>(16,224)</b>                   | <b>(78,195)</b>               | <b>(94,419)</b>                      |
| <b>Movement in reserves during 2019/20</b>                                      |                                  |  |   |                                   |                                      |                                   |                               |                                      |
| Total Comprehensive Income and Expenditure                                      | 1,232                            | 3,191                                  |   |                                   |                                      | 4,423                             | (2,608)                       | 1,815                                |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | (1,239)                          | (3,077)                                | 625                                     | 0                                 | (144)                                | (3,835)                           | 3,835                         | 0                                    |
| <b>(Increase)/decrease in 2019/20</b>   | <b>(7)</b>                       | <b>114</b>                             | <b>625</b>                              | <b>0</b>                          | <b>(144)</b>                         | <b>588</b>                        | <b>1,227</b>                  | <b>1,815</b>                         |
| <b>Balance at 31 March 2020</b>   | <b>(8,400)</b>                   | <b>(4,490)</b>                         | <b>(1,740)</b>                          | <b>0</b>                          | <b>(1,006)</b>                       | <b>(15,636)</b>                   | <b>(76,968)</b>               | <b>(92,604)</b>                      |

# FINANCIAL STATEMENTS

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| 31-Mar-20<br>£'000                           | Notes | 31-Mar-21<br>£'000 |
|--|-------|--------------------|
| 187,563 Property, Plant & Equipment          | 13    | 190,933            |
| 446 Heritage Assets                          | 14    | 480                |
| 6,700 Investment Properties                  | 15    | 6,603              |
| 186 Intangible Assets                        | 16    | 132                |
| 4,736 Long Term Debtors                      | 19    | 4,697              |
| <b>199,631 Long Term Assets</b>              |       | <b>202,845</b>     |
| 5,512 Short Term Investments                 | 17    | 2,000              |
| 6,501 Short Term Debtors                     | 19    | 12,946             |
| 5,860 Cash and Cash Equivalents              | 20    | 9,262              |
| <b>17,873 Current Assets</b>                 |       | <b>24,208</b>      |
| (16,167) Short Term Borrowing                | 17    | (12,146)           |
| (7,065) Short Term Creditors                 | 21    | (15,174)           |
| (1) Short Term Liabilities                   | 32    | (1)                |
| (1,414) Short Term Provisions                | 22    | (972)              |
| <b>(24,647) Current Liabilities</b>          |       | <b>(28,293)</b>    |
| (1,120) Long Term Creditors                  | 21    | (1,121)            |
| (45) Long Term Provisions                    | 22    | (45)               |
| (55,850) Long Term Borrowing                 | 17    | (52,750)           |
| (145) Other Long Term Liabilities            | 32    | (144)              |
| - Receipts in Advance - Revenue Grants       | 29    | (2,626)            |
| (2,584) Receipts in Advance - Capital Grants | 29    | (3,616)            |
| (40,509) Net Pension Liability               | 33    | (43,869)           |
| <b>(100,253) Long Term Liabilities</b>       |       | <b>(104,171)</b>   |
| <b>92,604 Net Assets</b>                     |       | <b>94,589</b>      |
| (15,636) Usable Reserves                     | 24    | (20,738)           |
| (76,968) Unusable Reserves                   | 25    | (73,851)           |
| <b>(92,604) Total Reserves</b>               |       | <b>(94,589)</b>    |

# FINANCIAL STATEMENTS

The unaudited Statement was issued on 30<sup>th</sup> July 2021 and the audited Statement was issued on 17<sup>th</sup> March 2022.

Chris Ward CPFA  
Borough Treasurer,  
17/03/2022

## Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

| 2019/20<br>£'000 | Notes  | 2020/21<br>£'000 |
|------------------|--|------------------|
| (4,423)          | Net surplus or (deficit) on the provision of services  | (4,376)          |
| 13,501           | Adjustments to surplus or deficit on the provision of services for non-cash movements  | 19,635           |
| (2,441)          | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (1,972)          |
| <b>6,637</b>     | Net Cash flows from Operating Activities   | <b>13,287</b>    |
| (3,753)          | Net Cash flows from Investing Activities   | 3,109            |
| (1,914)          | Net Cash flows from Financing Activities   | (12,994)         |
| <b>970</b>       | Net increase or (decrease) in cash and cash equivalents  | <b>3,402</b>     |
| 4,890            | Cash and cash equivalents at the beginning of the reporting period   | 5,860            |
| 5,860            | Cash and cash equivalents at the end of the reporting period   | 9,262            |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021.

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### b) Going Concern and Covid 19

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Covid pandemic has had an impact on Gosport Borough Council's finances through a combination of increased costs and a reduction in income and this includes

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and impact on collection rates.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless and rough sleepers), costs associated with the closure of Gosport Leisure Centre and additional costs associated with changes to working practices (such as remote working).
- Changes to government policy, e.g. changes to business rate reliefs, business support grants, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact of all of the above on the Councils cash flow and treasury management, including availability of liquid cash
- The estimated overall impact on the Council's General Fund and Housing Revenue Account reserves

The net total impact of Covid-19 on the General Fund reserves in 2020/21 was £2,000 after various sources of government support and interventions. Government grants of £690,000 have been received in 2021/22 and the government has also committed to partially funding lost income from fees and charges for the first four months of 2021/22 with the Council having to meet the first 5% and then 25% of the remaining loss with central government funding the difference.

It is not anticipated that the availability of cash will be a concern. At the 31<sup>st</sup> March 2021 the Council held short term investments and cash and cash equivalents of £11,262,000 and generally holds these balances at a minimum £10,000,000 during the year which it can reduce if required and can borrow a further £17,000,000 (within the currently approved Treasury Management Strategy) from a number of sources including the Public Works Loans Board as it has deferred borrowing to fund its prior year's capital programme. In the unlikely circumstance that this level of cash is insufficient, the Council could approve a higher Authorised Borrowing Limit. The Council has prepared a detailed cash flow up to 31<sup>st</sup> March 2023 and remains confident in its ability to maintain sufficient cash for its services throughout

# NOTES TO THE FINANCIAL STATEMENTS

the medium term. The Council is of course also able to borrow short term for cash management if ever needed.

Forecasting the impact of Covid-19 requires a number of key assumptions about future events, particularly the future impact on the Council's traditional sources of income from fees and charges. The Council has stress tested these assumptions and have estimated a potential impact on Council reserves based on a favourable, likely and unfavourable scenario's, the outcomes are detailed in the table below for the remainder of this Financial Year.

| Favourable | Current Projections | Less Favourable |
|------------|---------------------|-----------------|
| -£200,000  | 0                   | £250,000        |

The Council has minimal commercial investment income streams (such as commercial property) and as such is not exposed to material income risk from this income source.

The Councils useable reserves at 31<sup>st</sup> March 2021 are as follows

| General Fund | General Fund Earmarked Reserves | Housing Revenue Account Reserves |
|--------------|---------------------------------|----------------------------------|
| £1,000,000   | £11,135,000                     | £4,736,000                       |

The current medium term financial strategy (including the impact of Covid-19) assumes cumulative savings of £2,161,000 over the period 2022/23 to 2024/25 are required to produce a balanced budget, any shortfalls in individual years being met by using existing reserves.

It is therefore noted that there is significant headroom within the General Fund to absorb the estimated future financial impact of COVID-19 in the short to medium-term. Furthermore, the Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the foreseeable future.

## c) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

# NOTES TO THE FINANCIAL STATEMENTS

## **d) Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with the Council's main bank account.

Cash equivalents are deposits with financial institutions, including money market funds, repayable without penalty within one day for known amounts of cash with insignificant risk of changes in value.

In the cash flow statement, the cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## **e) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **f) Charges to Revenue for Non-Current Assets**

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance of the Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **g) Council Tax and Non-Domestic Rates (NDR)**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central

# NOTES TO THE FINANCIAL STATEMENTS

government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

## Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals

## **h) Employee Benefits**

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (i.e. Cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (including flexi time but not time off in lieu which is judged not to be material) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is calculated at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit and charged to the Surplus or Deficit on the Provision of Services. It is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-Employment Benefits

The majority of the Council's employees belong to the Local Government Pension Scheme (LGPS) administered by Hampshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council. Detailed regulations govern rates of contribution and scales of benefit.

# NOTES TO THE FINANCIAL STATEMENTS

- The Local Government Pension scheme is accounted for as a defined benefit scheme:
- The liabilities of the LGPS attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 2.1% based on the current rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

The change in the Council's net pension liability is analysed into the following components

|   |  |
|---|--|
| Service cost comprising   |  |
| Current service cost  | The increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked  |
| Past service cost   | The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs  |
| Net interest on the net defined benefit liability (asset) i.e. the net interest expense for the authority | The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments. |
| Remeasurements comprising   |  |
| The return on plan assets   | Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure  |
| Actuarial gains and losses  | Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure   |
| Contributions paid to the Hampshire Pension Fund  | Cash paid as employers' contributions to the pension fund in settlement of liabilities; not accounted for as an expense  |

# NOTES TO THE FINANCIAL STATEMENTS

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **i) Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **j) Financial Instruments**

Financial instruments can be described as contracts that give rise to a financial asset of one entity and a financial liability of another entity.

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

# NOTES TO THE FINANCIAL STATEMENTS

## Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI). The Council does not have any assets that fall into this class.

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

## Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

## Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets (if considered material) held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

## Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

## Fair value measurements of financial assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The fair value measurements of the Council's financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

# NOTES TO THE FINANCIAL STATEMENTS

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **k) Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges may be used to fund revenue expenditure.

## **l) Heritage Assets**

The Council's Heritage Assets are

# NOTES TO THE FINANCIAL STATEMENTS

- held in the Town Hall.
- Heritage related regeneration capital schemes under the Council's Heritage Action Zone status

The heritage assets largely comprise items of civic regalia and paintings as well as a mayoral chain and other miscellaneous items. They are all held in support of their primary objective of contributing to knowledge and culture and have cultural and historic associations that make their preservation for future generations important.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules in relation to heritage assets are permitted to be relaxed as detailed, together with a description of the assets held, in Note 14.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment i.e. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

Acquisitions and donations are rare. Where they do occur, acquisitions are recognised at cost and donations are recognised at valuation ascertained in accordance with the Council's policy on valuation of heritage assets.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes in the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Heritage assets apart from regeneration projects are considered to have an indefinite life and no depreciation is therefore charged. Depreciation will be charged on regeneration projects in accordance with the Council's depreciation policy.

There are no intangible heritage assets

## **m) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (i.e. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

# NOTES TO THE FINANCIAL STATEMENTS

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **n) Joint Arrangements**

The Council has a 25% share in the Portchester Crematorium that is disclosed in note 30 to the accounting statement. The Council's share of the assets and liabilities are also disclosed in note 30 as they are not considered of sufficient materiality to warrant inclusion in the Council's Balance Sheet.

## **o) Inventories and Long Term Contracts**

Inventories, where applicable, are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the consideration allocated to the performance obligations satisfied based on the goods and services transferred to the service recipient during the financial year.

## **p) Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **q) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

# NOTES TO THE FINANCIAL STATEMENTS

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

## The Council as Lessee

### *Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### *Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (i.e. there is a rent-free period at the commencement of the lease).

## The Council as Lessor

### *Finance Leases*

# NOTES TO THE FINANCIAL STATEMENTS

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve).

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (i.e. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income

## r) **Overheads and Support Services**

The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

## s) **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

# NOTES TO THE FINANCIAL STATEMENTS

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

A de-minimus level of £10,000 has been set below which the initial cost of assets is not capitalised.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

# NOTES TO THE FINANCIAL STATEMENTS

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is not charged on Community Assets or Garages as it is the Council's view that most of their value is held in land and it is not therefore depreciable.

Depreciation is calculated using the straight-line method, based on the opening balance plus any material movement and assuming a nil residual value, on the following bases:

- Council Dwellings – straight line method over the estimated useful life of the property
- Buildings - straight-line method over the useful life of the property as estimated by the Valuer
- Vehicles, Plant and Equipment - straight line method over the estimated useful life of the asset
- Infrastructure – straight line method over the estimated useful life of the asset

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in line with the following policy:

Componentisation of an asset will be considered where the carrying value of an asset is greater than £1,000,000, the component is at least 20% of the carrying value of the asset and there is a potentially significant impact on depreciation.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## Disposals and Non-Current Assets Held for Sale

# NOTES TO THE FINANCIAL STATEMENTS

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government under the Government's pooling arrangements. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## t) **Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

# NOTES TO THE FINANCIAL STATEMENTS

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (i.e. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

The Council maintains a provision for bad debts, MMI Insurance claims and successful business rates appeals.

## Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **u) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council's main reserves are described further in Notes 24 and 25 to the accounting statements

## **v) Revenue Expenditure funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

# NOTES TO THE FINANCIAL STATEMENTS

w) **Value Added Tax**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

x) **Fair Value Measurement of non-financial assets**

The Council measures some of its non-financial assets and financial instruments at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset takes place either:

- a) in the principal market for the asset, or
- b) in the absence of a principal market, in the most advantageous market for the asset.

The Council uses external valuers to provide a valuation of its assets using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets for which fair value is measured or disclosed are categorised within the fair value hierarchy as follows:

- Level 1 - quoted figures in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 - other observable information/data available for the asset or liability.
- Level 3 – unobservable inputs for the asset

# NOTES TO THE FINANCIAL STATEMENTS

## 2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards in the 2021/22 Code.

The new standards in the 2021/22 Code that apply from 1 April 2021 are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

It is not expected that these new standards will have a material impact on the Council's financial statements.

## 3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The most significant are:

- **Future funding for local government** – while there is a high degree of uncertainty about future levels of funding for local government, the Council has determined that this uncertainty is not sufficient to provide an indication that the Council's assets might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Asset classifications** – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- **Lease classifications** – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- **Contractual arrangements** - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Joint Arrangement** - The four member authorities of the Portchester Crematorium Joint Committee (PCJC) have made an assessment of the relationship against IFRS11, Joint Arrangements, to determine the appropriate accounting treatment. PCJC decisions take place through majority voting with no one authority having overall control, although each can exercise a significant influence over the PCJC. This joint arrangement means that each member authority has equal 25% voting rights. PCJC is an entity in its own right, with the ability to make binding decisions, employ staff and enter into contracts. The entity (PCJC) has been assessed as being an Associate and each member is required to reflect its 25% share of the PCJC assets and liabilities in its respective statement of accounts. The Council has made a judgement on the grounds of materiality that group accounts are not required and has therefore disclosed its share of the assets and liabilities as part of the Related Parties disclosure note (Note 30) rather than incorporate them into its Balance Sheet.
- **Potential Liabilities** - the Council has made judgements about the likelihood of potential liabilities and whether any provisions should be made. The judgements are based on the degree of certainty and an assessment of the likely impact. Note 22 refers.
- **Doubtful debts allowances** - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Uncertainties relating to Assumptions and Estimates used

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2021 for which material assumptions and estimates have been made are:

| Item                          | Uncertainties  | Effect if Actual Results Differ from Assumptions  |
|-------------------------------|--|---|
| Business Rates                | <p>The introduction of Business Rates Retention from 1 April 2013 has placed a significant risk for shortfalls in business rate funding onto the Council and precepting authorities. This is particularly true for factors outside of the Council's direct control such as rating appeals.</p> <p>A provision is held in the Collection Fund for the estimated total value of rating appeals that may require refunding but have not yet been formally agreed by the Valuation Office.</p> | <p>At 31 March 2021, the Council's share of the total provision of £2.431 million (£3.440 million in 2019/20) is £0.972 million (£1.376 million in 2019/20).</p> <p>The actual cost of appeals – whether above or below the provision - will impact on retained business rate income.</p>   |
| Property, Plant and Equipment | <p>Assets are depreciated over useful lives that are dependent on assumptions about individual assets service delivery and level of repairs and maintenance. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance which may bring into doubt the useful lives assigned to assets.</p>  | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £42,000 for every year that useful lives had to be reduced</p>   |
| Pensions Liability            | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>   | <p>The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured and a sensitivity analysis is included in note 33 (i.e. the projected service cost is estimated to decrease by £122,000 for a 1 year increase in the 2020/21 mortality rate assumption)</p> <p>However, the assumptions interact in complex ways. During 2020/21, the authority's actuaries advised that the net pensions liability had decreased by £1.489 million as a result of</p> |

# NOTES TO THE FINANCIAL STATEMENTS

|                          |  |  |
|--------------------------|--|--|
|                          |  | estimates being corrected as a result of experience and increased by £20.866 million attributable to updating of the assumptions   |
| Doubtful Debt Allowances | <p>The Covid 19 pandemic has increased the risk of non-payment of debt.</p> <p>The Council has made allowances for doubtful debts of £3.695 million in 2020/21 (£3.760 million in 2019/20) based on what it believes to be a prudent but realistic level.</p> <p>Payment terms are being allowed in certain situations to help mitigate defaults.</p>  | If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £185,000 (£188,000 in 2019/20).  |
| Fair Value Measurements  | <p>When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), then fair value is measured using valuation techniques, which, where possible, are based on observable data. Where this is not possible then judgement is required in establishing fair values – including comparison with market transactions of similar properties, Depreciated Replacement Cost (DRC), cash flow analysis etc.</p> | <p>Information about the valuation techniques and inputs used in determining the fair value of the Council's Investment Properties and Financial Instruments are disclosed in notes 15 and 17 to the financial statements.</p> <p>The judgements and unobservable inputs used include considerations of uncertainty and risk and changes in these assumptions and inputs could affect the fair value of the authority's assets and liabilities</p> |

## 5. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Borough Treasurer on xxx. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. No events have been identified.

## 6. Other Operating Expenditure

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| 270 Payments to the Government Housing Capital Receipts Pool | 301              |
| 4,206 (Gain) or Loss on the disposal of non-current assets   | 2,251            |
| <b>4,476</b>   | <b>2,552</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

## 7. Financing and Investment Income and Expenditure

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| 2,005 Interest payable and similar charges   | 1,930            |
| 904 Pension interest on net defined benefit liability  | 917              |
| (335) Interest receivable and similar income   | (242)            |
| (988) Net income and expenditure in relation to investment properties<br>and changes in their fair value | (284)            |
| <b>1,586</b>   | <b>2,321</b>     |

## 8. Taxation and Non Specific Grant Income and Expenditure

| 2019/20<br>£'000                                   | 2020/21<br>£'000 |
|--|------------------|
| (6,061) Council Tax Income                         | (6,193)          |
| (2,856) Retained Business Rates                    | 154              |
| (2,054) Non-Ringfenced Government Grants (Note 29) | (6,512)          |
| (793) Capital Grants and Contributions (Note 29)   | (373)            |
| <b>(11,764)</b>                                    | <b>(12,924)</b>  |

## 9. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The Council's reserves against which the adjustments are made are described in Notes 24 and 25

# NOTES TO THE FINANCIAL STATEMENTS

| 2020/21  | Usable Reserves      |                         |                          |                       |                          |
|--|----------------------|-------------------------|--------------------------|-----------------------|--------------------------|
|  | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied |
|  | £'000                | £'000                   | £'000                    | £'000                 | £'000                    |
| <b>Adjustments to Revenue Resources</b>  |                      |                         |                          |                       |                          |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: |                      |                         |                          |                       |                          |
| Pensions costs (transfers to or (from) the Pensions Reserve)   | (1,321)              | (473)                   |                          |                       |                          |
| Council Tax and Business Rates (transfers to or (from) the Collection Fund adjustment account)   | (3,059)              |                         |                          |                       |                          |
| Holiday pay (transferred to the Accumulated Absences Reserve)  | (76)                 | (39)                    |                          |                       |                          |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)                   | (3,213)              | (5,956)                 |                          |                       |                          |
| <b>Total Adjustments to Revenue Resources</b>  | <b>(7,669)</b>       | <b>(6,468)</b>          | <b>0</b>                 | <b>0</b>              | <b>0</b>                 |
| <b>Adjustments between Revenue and Capital Resources</b>   |                      |                         |                          |                       |                          |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve   | 200                  | 703                     | (903)                    |                       |                          |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)   | (6)                  | (12)                    | 18                       |                       |                          |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)  |                      | (301)                   | 301                      |                       |                          |
| Posting of HRA resources from revenue to the Major Repairs Reserve   |                      | 3,027                   |                          | (3,027)               |                          |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)   | 202                  |                         |                          |                       |                          |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)  | 462                  | 196                     |                          |                       |                          |
| Transfers to / (from) Capital Reserves   | 383                  |                         | (321)                    |                       | (248)                    |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>1,241</b>         | <b>3,613</b>            | <b>(905)</b>             | <b>(3,027)</b>        | <b>(248)</b>             |
| <b>Adjustments to Capital Resources</b>  |                      |                         |                          |                       |                          |
| Use of the Capital Receipts Reserve to finance capital expenditure   |                      |                         | 882                      |                       |                          |
| Use of the Major Repairs Reserve to finance capital expenditure  |                      |                         |                          | 2,215                 |                          |
| Application of capital grants to finance capital expenditure   | 926                  |                         |                          |                       |                          |
| Cash payments in relation to deferred capital receipts   |                      |                         | (38)                     |                       |                          |
| <b>Total Adjustments to Capital Resources</b>  | <b>926</b>           | <b>0</b>                | <b>844</b>               | <b>2,215</b>          | <b>0</b>                 |
| <b>Total Adjustments</b>   | <b>(5,502)</b>       | <b>(2,855)</b>          | <b>(61)</b>              | <b>(812)</b>          | <b>(248)</b>             |

# NOTES TO THE FINANCIAL STATEMENTS

| 2019/20  | Usable Reserves               |                                  |                                   |                                |                                   |
|--|-------------------------------|----------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
|  | General Fund Balance<br>£'000 | Housing Revenue Account<br>£'000 | Capital Receipts Reserve<br>£'000 | Major Repairs Reserve<br>£'000 | Capital Grants Unapplied<br>£'000 |
| <b>Adjustments to Revenue Resources</b>  |                               |                                  |                                   |                                |                                   |
| Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements: |                               |                                  |                                   |                                |                                   |
| Pensions costs (transfers to or (from) the Pensions Reserve)   | (834)                         | (323)                            |                                   |                                |                                   |
| Council Tax and Business Rates (transfers to or (from) the Collection Fund adjustment account)   | 415                           |                                  |                                   |                                |                                   |
| Holiday pay (transferred to the Accumulated Absences Reserve)  | (2)                           | (1)                              |                                   |                                |                                   |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)                   | (2,843)                       | (7,421)                          |                                   |                                |                                   |
| <b>Total Adjustments to Revenue Resources</b>  | <b>(3,264)</b>                | <b>(7,745)</b>                   | <b>0</b>                          | <b>0</b>                       | <b>0</b>                          |
| <b>Adjustments between Revenue and Capital Resources</b>   |                               |                                  |                                   |                                |                                   |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve   |                               | 1,078                            | (1,078)                           |                                |                                   |
| Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)   |                               | (18)                             | 18                                |                                |                                   |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)  |                               | (270)                            | 270                               |                                |                                   |
| Posting of HRA resources from revenue to the Major Repairs Reserve   |                               | 3,018                            |                                   | (3,021)                        |                                   |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)   |                               |                                  |                                   |                                |                                   |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)  | 847                           | 860                              |                                   |                                |                                   |
| Transfers to Capital Reserves  | (13)                          |                                  | 157                               |                                | (144)                             |
| <b>Total Adjustments between Revenue and Capital Resources</b>   | <b>834</b>                    | <b>4,668</b>                     | <b>(633)</b>                      | <b>(3,021)</b>                 | <b>(144)</b>                      |
| <b>Adjustments to Capital Resources</b>  |                               |                                  |                                   |                                |                                   |
| Use of the Capital Receipts Reserve to finance capital expenditure   |                               |                                  | 1,294                             |                                |                                   |
| Use of the Major Repairs Reserve to finance capital expenditure  |                               |                                  |                                   | 3,021                          |                                   |
| Application of capital grants to finance capital expenditure   | 1,191                         |                                  |                                   |                                |                                   |
| Cash payments in relation to deferred capital receipts   |                               |                                  | (36)                              |                                |                                   |
| <b>Total Adjustments to Capital Resources</b>  | <b>1,191</b>                  | <b>0</b>                         | <b>1,258</b>                      | <b>3,021</b>                   | <b>0</b>                          |
| <b>Total Adjustments</b>   | <b>(1,239)</b>                | <b>(3,077)</b>                   | <b>625</b>                        | <b>0</b>                       | <b>(144)</b>                      |

# NOTES TO THE FINANCIAL STATEMENTS

## 10. Expenditure and Funding Analysis

This note shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's boards. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| Net Expenditure chargeable to the GF & HRA Balances<br>£'000 | 2019/20   |  | Net Expenditure in the Comprehensive Income & Expenditure Statement<br>£'000 |  | 2020/21  |   | Net Expenditure in the Comprehensive Income & Expenditure Statement<br>£'000 |
|--|---|--|--|--|--|---|--|
|  | Adjustments between Funding & Accounting Basis<br>£'000 |  |  |  | Net Expenditure chargeable to the GF & HRA Balances<br>£'000 | Adjustments between Funding & Accounting Basis<br>£'000 |  |
| 4,659  | (1,836)   |  | 6,495  | Community Board  | 4,994  | (2,372)   | 7,366  |
| 250  | (157)   |  | 407  | Housing Board  | 845  | (374)   | 1,219  |
| 694  | (305)   |  | 999  | Economic Development   | 697  | (378)   | 1,075  |
| 6,685  | 1,993   |  | 4,691  | Policy and Organisation  | 6,553  | 1,788   | 4,765  |
| (1,689)  | 779   |  | (2,467)  | Housing Revenue Account  | (2,075)  | (77)  | (1,998)  |
| <b>10,599</b>  | <b>474</b>  |  | <b>10,125</b>  | <b>Cost Of Services</b>  | <b>11,014</b>  | <b>(1,413)</b>  | <b>12,427</b>  |
| (10,478)   | (4,776)   |  | (5,702)  | Other Income and Expenditure   | (15,378)   | (7,327)   | (8,051)  |
| <b>121</b>   | <b>(4,302)</b>  |  | <b>4,423</b>   | <b>(Surplus) or Deficit</b>  | <b>(4,364)</b>   | <b>(8,740)</b>  | <b>4,376</b>   |
| (13,859)   |   |  |  | Opening General Fund and HRA Balance                                     | (13,896)   |   |  |
| 121  |   |  |  | Less / Plus (Surplus) or Deficit on General Fund and HRA Balance in Year | (4,364)  |   |  |
| (158)  |   |  |  | Less Transfer to Revenue Reserve for Capital                             | 135  |   |  |
| <b>(13,896)</b>  |   |  |  | Closing General Fund and HRA Balance at 31 March #                       | <b>(18,125)</b>  |   |  |

# for a split of this balance between the General Fund and the HRA - see the Movement in Reserves Statement and Note 24

# NOTES TO THE FINANCIAL STATEMENTS

## 11. Note to the Expenditure and Funding Analysis

This note provides a further analysis of the reconciling adjustments shown in the Expenditure and Funding Analysis that convert the Code based presentation in the Comprehensive Income and Expenditure Statement to the Council reporting structure presentation.

| Adjustments between Funding and Accounting Basis 2020/21   | Adjustments for Capital Purposes<br>£'000 | Net change for the Pensions Adjustments<br>£'000 | Other Differences<br>£'000 | Total Adjustments<br>£'000 |
|--|---|--|----------------------------|----------------------------|
| Community Board  | (2,034)                                   | (154)  | (184)                      | (2,372)                    |
| Housing Board  | (208)                                     | (47)   | (119)                      | (374)                      |
| Economic Development Board   | (290)                                     | (31)   | (57)                       | (378)                      |
| Policy and Organisation Board  | 665                                       | (422)  | 1,545                      | 1,788                      |
| Housing Revenue Account  | 185                                       | (223)  | (39)                       | (77)                       |
| <b>Net Cost Of Services</b>  | <b>(1,682)</b>                            | <b>(877)</b>                                     | <b>1,146</b>               | <b>(1,413)</b>             |
| Other income & expenditure from the Expenditure & Funding Analysis   | (2,088)                                   | (917)  | (4,322)                    | (7,327)                    |
| <b>Difference between the General Fund surplus or deficit &amp; the Comprehensive Income &amp; Expenditure Statement surplus or deficit on the provision of services</b> | <b>(3,770)</b>                            | <b>(1,794)</b>                                   | <b>(3,176)</b>             | <b>(8,740)</b>             |

| Adjustments between Funding and Accounting Basis 2019/20   | Adjustments for Capital Purposes<br>£'000 | Net change for the Pensions Adjustments<br>£'000 | Other Differences<br>£'000 | Total Adjustments<br>£'000 |
|--|---|--|----------------------------|----------------------------|
| Community Board  | (1,579)                                   | (64)   | (350)                      | (1,993)                    |
| Economic Development Board   | (267)                                     | (9)  | (29)                       | (305)                      |
| Policy and Organisation Board  | 550                                       | (101)  | 1,544                      | 1,993                      |
| Housing Revenue Account  | 859                                       | (79)   | (1)                        | 779                        |
| <b>Net Cost Of Services</b>  | <b>(437)</b>                              | <b>(253)</b>                                     | <b>1,164</b>               | <b>474</b>                 |
| Other income & expenditure from the Expenditure & Funding Analysis   | (3,120)                                   | (904)  | (752)                      | (4,776)                    |
| <b>Difference between the General Fund surplus or deficit &amp; the Comprehensive Income &amp; Expenditure Statement surplus or deficit on the provision of services</b> | <b>(3,557)</b>                            | <b>(1,157)</b>                                   | <b>412</b>                 | <b>(4,302)</b>             |

# NOTES TO THE FINANCIAL STATEMENTS

**Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the service line, Minimum Revenue Provision; Refcus expenditure and grant income included in services and for

- **Other operating expenditure** – gain or loss on disposal of capital assets including adjustments for income and asset derecognition; payments to the Government's Housing Capital Receipts Pool
- **Financing and investment income and expenditure** – investment property changes in value
- **Taxation and non-specific grant income and expenditure** – capital grants applied to funding the capital programme

**Net Change for the Pensions Adjustments** – adjustment for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

**Other Differences** - include

- **Financing and investment income and expenditure** – interest and similar items paid and received; investment property expenditure and income
- **Taxation and non-specific grant income and expenditure** - the difference between what is chargeable under statutory regulations for Council Tax and Business Rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund.

## 12. Expenditure and Income Analysed by Nature

The Council's surplus or deficit on the provision of services from the Comprehensive Income and Expenditure Statement may also be shown by the type of expenditure or income as below

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| 1,290 Employees ( <i>excludes Business Unit staff</i> )        | 784              |
| 5,331 Premises   | 6,299            |
| 26 Transport   | 22               |
| 3,526 Supplies & Services                                      | 3,845            |
| 4,767 Third Party Payments ( <i>includes major contracts</i> ) | 5,438            |
| 21,743 Transfer Payments ( <i>includes Benefit payments</i> )  | 21,577           |
| 11,177 Support Services ( <i>see note below #</i> )            | 12,099           |
| 11,023 Depreciation, amortisation, impairment                  | 9,988            |
| 2,014 Capital/Financing ( <i>includes interest, MRP</i> )      | 2,139            |
| (4,614) Fees & Charges ( <i>see analysis below</i> )           | (4,629)          |
| (51,860) Non Fees & Charges ( <i>see analysis below</i> )      | (53,372)         |
| <b>4,423 Deficit on Provision of Services</b>                  | <b>4,190</b>     |

# Support service costs are the recharges to services (both General Fund and Housing Revenue Account) from the Council's administrative business units. The gross cost of those services (i.e. including their share of apportioned administration and overheads) is £12.5 million in 2020/21 (£12.3 million in 2019/20). The total employee related costs included are £8.9 million and £8.6 million respectively.

# NOTES TO THE FINANCIAL STATEMENTS

Income can be further analysed over the following headings

| 2019/20<br>£'000 |  | 2020/21<br>£'000 |
|------------------|--|------------------|
|                  | <b><u>Fees &amp; Charges (see segmental analysis below)</u></b>  |                  |
| (347)            | Cust & Client Receipts - Sales   | (332)            |
| (1,778)          | Cust & Client Receipts - Rents   | (1,802)          |
| (2,489)          | Cust & Client Receipts - Fees & Charges  | (2,495)          |
|                  | <b><u>Non Fees &amp; Charges</u></b>   |                  |
| (26,722)         | Government Grants <i>(includes Business Rates, Revenue Support Grant &amp; Benefits Subsidy payments)</i>  | (29,154)         |
| (2,551)          | Other Grants, Reimbursements & Contributions <i>(a broad range of service grants &amp; contributions, including Business Rates Cost of Collection)</i> | (1,369)          |
| (2,181)          | Interest <i>(includes interest reimbursed by the HRA to the GF)</i>  | (2,115)          |
| (6,002)          | Taxation & Non Specific Grants <i>(includes Council Tax precept)</i>   | (6,311)          |
| (14,397)         | HRA - income <i>(includes Benefits rental income)</i>  | (14,439)         |
| (7)              | Other  | 16               |
| <b>(56,474)</b>  |  | <b>(58,001)</b>  |
|                  | <b><u>Fees &amp; Charges by reporting segment</u></b>  |                  |
| (3,414)          | Community Board  | (1,775)          |
|                  | - Housing Board  | (1,402)          |
| (338)            | Economic Development Board   | (485)            |
| (488)            | Policy and Organisation Board  | (401)            |
| (374)            | Housing Revenue Account  | (566)            |
| <b>(4,614)</b>   |  | <b>(4,629)</b>   |

## 13. Property, Plant and Equipment and Impairments

### Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated.

| Asset   | Depreciation Method  |
|---|--|
| Council Dwellings   | Straight line method over the estimated useful life of the asset which on average is 50 years  |
| Other Land & Buildings (Operational Property and Garages) | Straight line method over the estimated useful life of the asset which range between 2 and 60 years<br>Garages are not depreciated as it is the Council's view that most of the value is in the land |
| Vehicles Plant & Equipment                                | Straight line method over the estimated useful life of the asset which are between 3 and 20 years  |
| Infrastructure  | Straight line method over the estimated useful life of the asset which are between 15 and 60 years   |
| Community Assets  | No charge – it is the Council's view that most of the value of Community Assets is held in land and is not therefore depreciable   |

# NOTES TO THE FINANCIAL STATEMENTS

| Movement in Plant, Property and Equipment for 2020/21 | Council Dwellings | Land & Buildings | Vehicles, Plant & Equipment | Infrastructure | Community Assets | Surplus Assets | Assets Under Construction | Total Plant, Property & Equipment |
|---|-------------------|------------------|-----------------------------|----------------|------------------|----------------|---------------------------|-----------------------------------|
|   | £'000             | £'000            | £'000                       | £'000          | £'000            | £'000          | £'000                     | £'000                             |
| <b>Cost or Valuation</b>                              |                   |                  |                             |                |                  |                |                           |                                   |
| At 1 April 2020                                       | 146,969           | 25,924           | 4,607                       | 13,632         | 4,419            | 726            | 1,172                     | 197,449                           |
| Additions   | 2,754             | 18               | 450                         | 0              | 25               |                | 686                       | 3,933                             |
| Revaluation increases/(decreases) to RR               | 5,156             | (1,177)          |                             |                |                  | 2              |                           | 3,981                             |
| Revaluation increases/(decreases) to SDPS             |                   | (932)            |                             |                |                  | 0              |                           | (932)                             |
| De-recognition - Disposals                            | (703)             | 0                | 0                           |                |                  |                |                           | (703)                             |
| De-recognition - Other                                | (2,216)           | (218)            | (1,937)                     |                |                  |                | 0                         | (4,371)                           |
| Assets reclassified                                   |                   | 0                | 0                           | 0              | 0                | 0              | 0                         | 0                                 |
| <b>At 31 March 2021</b>                               | <b>151,960</b>    | <b>23,615</b>    | <b>3,120</b>                | <b>13,632</b>  | <b>4,444</b>     | <b>728</b>     | <b>1,858</b>              | <b>199,357</b>                    |
| <b>Accumulated Depreciation &amp; Impairment</b>      |                   |                  |                             |                |                  |                |                           |                                   |
| At 1 April 2020                                       | 0                 | (307)            | (3,003)                     | (6,575)        | 0                | 0              | 0                         | (9,885)                           |
| Depreciation Charge                                   | (3,027)           | (692)            | (332)                       | (371)          |                  |                |                           | (4,422)                           |
| Depreciation & Impairment written out to RR           | 3,027             | 919              |                             |                |                  |                |                           | 3,946                             |
| De-recognition - Disposals                            |                   | 0                |                             |                |                  |                |                           | 0                                 |
| De-recognition - Other                                |                   |                  | 1,937                       |                |                  |                |                           | 1,937                             |
| Assets reclassified                                   |                   |                  |                             |                |                  |                |                           | 0                                 |
| <b>At 31 March 2021</b>                               | <b>0</b>          | <b>(80)</b>      | <b>(1,398)</b>              | <b>(6,946)</b> | <b>0</b>         | <b>0</b>       | <b>0</b>                  | <b>(8,424)</b>                    |
| <b>Net Book Value</b>                                 |                   |                  |                             |                |                  |                |                           |                                   |
| <b>At 31 March 2021</b>                               | <b>151,960</b>    | <b>23,535</b>    | <b>1,722</b>                | <b>6,686</b>   | <b>4,444</b>     | <b>728</b>     | <b>1,858</b>              | <b>190,933</b>                    |

# NOTES TO THE FINANCIAL STATEMENTS

| Movement in Plant, Property and Equipment for 2019/20 | Council Dwellings | Land & Buildings | Vehicles, Plant & Equipment | Infrastructure | Community Assets | Surplus Assets | Assets Under Construction | Total Plant, Property & Equipment |
|---|-------------------|------------------|-----------------------------|----------------|------------------|----------------|---------------------------|-----------------------------------|
|   | £'000             | £'000            | £'000                       | £'000          | £'000            | £'000          | £'000                     | £'000                             |
| <b>Cost or Valuation</b>                              |                   |                  |                             |                |                  |                |                           |                                   |
| At 1 April 2019                                       | 147,203           | 26,470           | 3,833                       | 13,238         | 4,385            | 208            | 1,103                     | 196,440                           |
| Additions   | 5,023             | 392              | 865                         | 258            | 24               |                | 880                       | 7,442                             |
| Revaluation increases/(decreases) to RR               | (856)             | (341)            |                             |                |                  | 562            |                           | (635)                             |
| Revaluation increases/(decreases) to SDPS             |                   | (490)            |                             |                |                  | (44)           |                           | (534)                             |
| De-recognition - Disposals                            | (1,078)           |                  |                             |                |                  |                |                           | (1,078)                           |
| De-recognition - Other                                | (3,323)           | (121)            | (309)                       |                |                  |                | (433)                     | (4,186)                           |
| Assets reclassified                                   |                   | 14               | 218                         | 136            | 10               |                | (378)                     | 0                                 |
| <b>At 31 March 2020</b>                               | <b>146,969</b>    | <b>25,924</b>    | <b>4,607</b>                | <b>13,632</b>  | <b>4,419</b>     | <b>726</b>     | <b>1,172</b>              | <b>197,449</b>                    |
| <b>Accumulated Depreciation &amp; Impairment</b>      |                   |                  |                             |                |                  |                |                           |                                   |
| At 1 April 2019                                       | 0                 | (457)            | (2,878)                     | (6,215)        | 0                | 0              | 0                         | (9,550)                           |
| Depreciation Charge                                   | (3,018)           | (808)            | (299)                       | (360)          |                  |                |                           | (4,485)                           |
| Depreciation & Impairment written out to RR           | 3,018             | 958              |                             |                |                  |                |                           | 3,976                             |
| Impairment losses/(reversals) to RR                   |                   |                  |                             |                |                  |                |                           | 0                                 |
| Impairment losses/(reversals) to SDPS                 |                   |                  |                             |                |                  |                |                           | 0                                 |
| De-recognition - Disposals                            |                   |                  |                             |                |                  |                |                           | 0                                 |
| De-recognition - Other                                |                   |                  | 173                         |                |                  |                |                           | 173                               |
| Assets reclassified                                   |                   |                  |                             |                |                  |                |                           | 0                                 |
| <b>At 31 March 2020</b>                               | <b>0</b>          | <b>(307)</b>     | <b>(3,004)</b>              | <b>(6,575)</b> | <b>0</b>         | <b>0</b>       | <b>0</b>                  | <b>(9,886)</b>                    |
| <b>Net Book Value</b>                                 |                   |                  |                             |                |                  |                |                           |                                   |
| <b>At 31 March 2020</b>                               | <b>146,969</b>    | <b>25,617</b>    | <b>1,603</b>                | <b>7,057</b>   | <b>4,419</b>     | <b>726</b>     | <b>1,172</b>              | <b>187,563</b>                    |

# NOTES TO THE FINANCIAL STATEMENTS

## Capital Commitments

Significant commitments for future expenditure at 31 March 2021 include:

| 2019/20<br>£'000                    | 2020/21<br>£'000 |
|-------------------------------------|------------------|
| 187 Alver Valley Country Park       | -                |
| - DSO Grounds Maintenance Machinery | 175              |
| - Financial System Upgrade          | 56               |
| <b>187</b>                          | <b>231</b>       |

## Revaluations

The table below shows the progress of the Council's programme of fixed asset valuations in line with the valuation methods set out in the Statement of Accounting Policies. Valuations are carried out for Council Dwellings and General Fund properties by Savills (UK) Ltd and Capita Ltd respectively. The valuations are gross balance sheet value before depreciation.

|  | Historical<br>£'000 | Fair Value - revalued when indicated |                  |                  |                  | Total<br>£'000 |
|--|---------------------|--------------------------------------|------------------|------------------|------------------|----------------|
|  |                     | 2020/21<br>£'000                     | 2019/20<br>£'000 | 2018/19<br>£'000 | 2017/18<br>£'000 |                |
| <b>Property, Plant &amp; Equipment</b> |                     |                                      |                  |                  |                  |                |
| Council Dwellings                      | -                   | 151,960                              | -                | -                | -                | 151,960        |
| Operational Property                   |                     | 20,618                               | 1,419            | 359              | 56               | 22,452         |
| Garages                                | -                   | 1,163                                | -                | -                | -                | 1,163          |
| Equipment                              | 3,120               | -                                    | -                | -                | -                | 3,120          |
| Infrastructure                         | 13,632              | -                                    | -                | -                | -                | 13,632         |
| Community Assets                       | 4,444               | -                                    | -                | -                | -                | 4,444          |
| Surplus Assets                         | -                   | 728                                  | -                | -                | -                | 728            |
| Assets under Construction              | 1,858               | -                                    | -                | -                | -                | 1,858          |
|  | <b>23,054</b>       | <b>174,469</b>                       | <b>1,419</b>     | <b>359</b>       | <b>56</b>        | <b>199,357</b> |

The outbreak of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy - with some real estate markets having experienced lower levels of transactional activity and liquidity.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt both Capita Ltd and Savills (UK) Ltd consider their valuations are not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

## Surplus Assets

Surplus Assets have been value assessed as Level 3 on the fair value hierarchy for valuation purposes (see Note 1 Accounting Policy (y) for an explanation of the fair value levels). A desktop valuation has been used to determine Level 3 fair value for surplus assets, the assets have not been inspected, reliance has been placed on similar development opportunities for these assets being offered for sale in similar towns or district centres across the Hampshire area some beyond.

# NOTES TO THE FINANCIAL STATEMENTS

## Impairments

There were no general impairments identified in 2020/21 or 2019/20.

Any revaluation gains or losses for those assets that were reported on by the Council's valuers for 2020/21 have been reflected in the Revaluation Reserve or the Capital Adjustment Account (the latter through the Comprehensive Income and Expenditure Statement) as appropriate.

## Assets Held For Sale

The Council does not have any assets that meet the Code definition of Assets Held for Sale.

## 14. Heritage Assets

Movement of the carrying value of Heritage Assets held by the Authority

|                          | Civic<br>Regalia<br>inc<br>Mayoral<br>Chain<br>(Held in the Town Hall) | Paintings  | Other     | Historical<br>Sites | Total      |
|--------------------------|--|------------|-----------|---------------------|------------|
|                          | £'000  | £'000      | £'000     | £'000               | £'000      |
| <b>Cost or Valuation</b> |  |            |           |                     |            |
| <b>01-Apr-19</b>         | <b>260</b>   | <b>117</b> | <b>18</b> | <b>-</b>            | <b>395</b> |
| Additions                | -  | -          | -         | 51                  | 51         |
| Revaluations             | -  | -          | -         | -                   | -          |
| Depreciation             | -  | -          | -         | -                   | -          |
| <b>31-Mar-20</b>         | <b>260</b>   | <b>117</b> | <b>18</b> | <b>51</b>           | <b>446</b> |
| Additions                | -  | -          | -         | 36                  | 36         |
| Revaluations             | -  | -          | -         | -                   | -          |
| Depreciation             | -  | -          | -         | (2)                 | (2)        |
| <b>31-Mar-21</b>         | <b>260</b>   | <b>117</b> | <b>18</b> | <b>85</b>           | <b>480</b> |

The Council's Heritage Assets are held by the Council in the Town Hall and cost of work on sites of a Historical Nature are accounted for and valued as follows:

- Civic Regalia – annually updated insurance valuation
- Mayoral Chain and Badge – annually updated insurance valuation
- Paintings and Prints – a collection of 64 paintings and prints located throughout the Town Hall - annually updated insurance valuation
- Other Items – include a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

The Council's Heritage Assets held at the Town Hall are considered to have an indefinite life and no depreciation is therefore charged.

- Historical Sites – the borough of Gosport has been designated as a Heritage Action Zone by Historic England which is aimed at preserving the town's military heritage. Works to Historic Sites are valued at Depreciated Historic Cost.

The existing inventory of items remains unchanged for 2020/21 and the insurance cover has been re-evaluated.

# NOTES TO THE FINANCIAL STATEMENTS

In addition to the Council's heritage assets held in the Town Hall and included in this statement of accounts, a Gosport Museum collection is also held by the Hampshire County Council. Objects in the collection that were accessioned before 1 April 1991 are owned by Gosport Borough Council and are on loan to Hampshire County Council. These objects are now part of the Temporary Collection of items listed and detailed in the Hampshire County Council Accessions Register, which from 1 November 2014, the Commencement Date of the Hampshire Cultural Trust, are on loan from Hampshire County Council to the Trust. The majority of these objects are located in the stores or are on display at the Gosport Discovery Centre and some items are held separately in specialised storage conditions at Hampshire County Council premises outside of Gosport. The objects accessioned after this date are owned by Hampshire County Council. No total valuation exists for this collection which is covered by the County Council's insurance arrangements.

## 15. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

| 2019/20<br>£'000  | 2020/21<br>£'000 |
|---|------------------|
| 48 Direct operating expenses arising from investment property | 48               |
| (473) Rental income from investment property                  | (428)            |
| <b>(425) Net gain</b>   | <b>(380)</b>     |

### Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 3 on the fair value hierarchy for valuation purposes (see Note 1 Accounting Policy (x) for an explanation of the fair value levels).

### Valuation Techniques used to determine Level 3 Fair Values for Investment Property

Desktop valuations of the Councils investment property portfolio. The properties have not been inspected nor have any leases or other tenancy information been reviewed. Reliance has been placed on copies of previous valuations, spreadsheet tenancy schedules and interviews with Council staff.

There has been no change in the valuation techniques used during the year for investment properties.

### Highest and best use

In estimating the fair value of the Council's investment properties, the highest and best use is their current use.

### Valuation process for Investment Properties

The Council's investment property has been valued as at 31 March 2021 by Capita Ltd in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Due to the impact of Covid 19 on the valuation process (see note 13) values are reported on the basis of "material valuation uncertainty".

# NOTES TO THE FINANCIAL STATEMENTS

The following table summarises the movement in the fair value of investment properties over the year.

| 2019/20<br>£'000                                      | 2020/21<br>£'000 |
|---|------------------|
| 6,089 Balance at the start of the year                | 6,700            |
| 48 Subsequent expenditure                             | -                |
| 563 Net gains or (losses) from fair value adjustments | (97)             |
| <b>6,700</b> Balance at the end of the year           | <b>6,603</b>     |

## 16. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible assets primarily comprise purchased licenses and software.

The carrying amount of intangible assets is based on historic cost and is amortised on a straight-line basis on estimated lives between 3 and 10 years. The amortisation of £94,000 charged to revenue in 2020/21 (£123,000 in 2019/20) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

| 2019/20<br>£'000  | 2020/21<br>£'000 |
|---|------------------|
| Balance at the start of the year                        |                  |
| 1,754 Gross carrying amount                             | 1,197            |
| (1,288) Accumulated amortisation                        | (1,011)          |
| <b>466</b> Net carrying amount at the start of the year | <b>186</b>       |
| 18 Purchases  | 40               |
| (575) Derecognition - gross carrying amount             | (688)            |
| 400 Derecognition - amortisation                        | 688              |
| - Transfer from Assets Under Construction               | -                |
| (123) Amortisation for the year                         | (94)             |
| <b>186</b> Net carrying amount at the end of the year   | <b>132</b>       |
| Comprising  |                  |
| 1,197 Gross carrying amount                             | 549              |
| (1,011) Accumulated amortisation                        | (417)            |

## 17. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

### Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to

# NOTES TO THE FINANCIAL STATEMENTS

exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

## Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council.

The following categories of Financial Liabilities and assets held at the year end are shown in the table below.

| 31-Mar-20  |                 | 31-Mar-21       |                 |
|--|-----------------|-----------------|-----------------|
| Long Term  | Current         | Long Term       | Current         |
| £'000  | £'000           | £'000           | £'000           |
| <b><u>Financial Liabilities</u></b>  |                 |                 |                 |
| (55,850)   | (5,100)         | (52,750)        | (3,100)         |
| -  | (53)            | -               | (43)            |
| -  | (11,000)        | -               | (9,000)         |
| -  | (14)            | -               | (3)             |
| -  | (68)            | -               | -               |
| (55,850)   | (16,235)        | (52,750)        | (12,146)        |
| -  | (1,203)         | -               | (2,860)         |
| <b>(55,850)</b>  | <b>(17,438)</b> | <b>(52,750)</b> | <b>(15,006)</b> |
| All borrowing is at fixed rates and is shown at amortised cost                       |                 |                 |                 |
| <b><u>Financial Assets</u></b>   |                 |                 |                 |
| -  | 5,512           | -               | 2,000           |
| Cash and Cash Equivalents  |                 |                 |                 |
| -  | 25              | -               | 3               |
| -  | 5,903           | -               | 9,000           |
| Debtors at amortised cost  |                 |                 |                 |
| 48   | 1               | 49              | 1               |
| 4,652  | 38              | 4,612           | 40              |
| -  | 2,555           | -               | 3,238           |
| <b>4,700</b>   | <b>14,034</b>   | <b>4,661</b>    | <b>14,282</b>   |
| <b>** Bank Overdraft is netted of cash and cash equivalents in the balance sheet</b> |                 |                 |                 |

## **Income, Expense, Gains and Losses**

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

# NOTES TO THE FINANCIAL STATEMENTS

| 31-Mar-20<br>£'000 |   | 31-Mar-21<br>£'000 |
|--------------------|---|--------------------|
|                    | <b><u>Financial Liabilities:</u></b>                            |                    |
| 2,005              | Interest from financial liabilities measured at amortised cost  | 1,930              |
|                    | <b><u>Financial Assets:</u></b>                                 |                    |
| (335)              | Interest from Financial Assets                                  | (242)              |
| <b>1,670</b>       | Included in the Surplus or Deficit on the Provision of Services | <b>1,688</b>       |

## Financial Instruments – Fair Values

Financial assets and financial liabilities represented by loans and receivables and long term debtors and creditors are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the remaining contractual cash flows over the remaining life of the instrument at the appropriate market rate for local authority loans.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.
- The fair value of finance lease assets have been calculated by discounting the contractual cash flows at an estimate of an appropriate corporate bond yield reflecting the creditworthiness of the lessor.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

# NOTES TO THE FINANCIAL STATEMENTS

| 31-Mar-20       |                 |  |                  | 31-Mar-21       |                 |
|-----------------|-----------------|--|------------------|-----------------|-----------------|
| Carrying Amount | Fair Value      |  | Fair Value Level | Carrying Amount | Fair Value      |
| £'000           | £'000           |  |                  | £'000           | £'000           |
|                 |                 | <b>Financial Liabilities held at amortised cost</b>      |                  |                 |                 |
| (61,003)        | (74,853)        | PWLB Loans (Long and Short Term)                         | 2                | (55,893)        | (70,400)        |
| <b>(61,003)</b> | <b>(74,853)</b> | <b>Total Financial Liabilities</b>                       |                  | <b>(55,893)</b> | <b>(70,400)</b> |
| (12,285)        |                 | <b>Liabilities for which fair value is not disclosed</b> |                  |                 |                 |
|                 |                 |  | *                | (11,863)        |                 |
| <b>(73,288)</b> |                 | <b>Total Financial Liabilities</b>                       |                  | <b>(67,756)</b> |                 |
|                 |                 | <u>Recorded on the balance sheet as</u>                  |                  |                 |                 |
| (55,850)        |                 | Long Term Borrowing                                      |                  | (52,750)        |                 |
| (68)            |                 | Bank Overdraft   |                  | -               |                 |
| (16,167)        |                 | Short Term Borrowing                                     |                  | (12,146)        |                 |
| (1,203)         |                 | Short Term Creditors                                     |                  | (2,860)         |                 |
| <b>(73,288)</b> |                 | <b>Total Financial Liabilities</b>                       |                  | <b>(67,756)</b> |                 |

| 31-Mar-20       |            |   |                  | 31-Mar-21       |              |
|-----------------|------------|---|------------------|-----------------|--------------|
| Carrying Amount | Fair Value |   | Fair Value Level | Carrying Amount | Fair Value   |
| £'000           | £'000      |   |                  | £'000           | £'000        |
|                 |            | <b>Financial Assets held at amortised cost</b>      |                  |                 |              |
| 4,652           | 3,597      | Long Term Lease receivables                         | 3                | 4,612           | 3,883        |
| 48              | 48         | Long Term Staff Loans (Car, Bike and Bus Pass)      | 3                | 49              | 49           |
| 4,700           | 3,645      | <b>Total</b>  |                  | <b>4,661</b>    | <b>3,932</b> |
| 14,034          |            | <b>Assets for which fair value is not disclosed</b> |                  |                 |              |
|                 |            |   | *                | 14,282          |              |
| <b>18,734</b>   |            | <b>Total Financial Assets</b>                       |                  | <b>18,943</b>   |              |
|                 |            | <u>Recorded on the balance sheet as:</u>            |                  |                 |              |
| 4,700           |            | Long Term Debtors                                   |                  | 4,661           |              |
| 2,594           |            | Short Term Debtors                                  | *                | 3,279           |              |
| 5,512           |            | Short Term Investments                              | *                | 2,000           |              |
| 5,928           |            | Cash and Cash Equivalents                           | *                | 9,003           |              |
| <b>18,734</b>   |            | <b>Total Financial Assets</b>                       |                  | <b>18,943</b>   |              |

\* The fair value of short-term financial liabilities/assets including trade payables/receivables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is high than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is lower than the current rates available for similar loans as at the Balance Sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar financial transactions is now higher than that obtained when the financial transaction was originally made.

## 18. Nature and Extent of Risks Arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes a Treasury Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The key risks are:

- *Credit Risk*: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk*: The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk*: The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

### Credit Risk

**Treasury Investments:** The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £3million is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks and building societies a smaller limit of £2million applies. The Council also sets limits on investments in certain worldwide geographical areas.

The table below summarises the credit risk exposures of the Council's short term treasury investment portfolio at 31<sup>st</sup> March by credit rating (includes investments categorised as cash and cash equivalents).

| Credit Rating                | 2019/20<br>£'000 | 2020/21<br>£'000 |
|------------------------------|------------------|------------------|
| A                            | 2,000            | 1,500            |
| Unrated Local Authorities    | 3,500            | 2,000            |
| Total                        | 5,500            | 3,500            |
| Credit risk not applicable * | 5,900            | 7,500            |
| Total Investments            | 11,400           | 11,000           |

\* Credit risk is not applicable to Money Market Funds where the Council has no contractual right to receive any sum of money

# NOTES TO THE FINANCIAL STATEMENTS

Loss allowances on treasury investments have been calculated by reference to historical default data published by credit rating agencies adjusted for current and forecast economic conditions; these allowances are not significant and have not been included within the accounts on grounds of materiality.

**Lease Receivables:** The Council's credit risk on lease receivables is mitigated by its legal ownership of the assets leased, which can be repossessed if the debtor defaults on the lease contract.

**Trade Receivables:** The following analysis summarises the council's potential maximum exposure to credit risk based on experience of default and future collectability. (the Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments).

The Covid 19 pandemic has increased the risk of default; the council is allowing payment terms with tenants to mitigate defaults.

|   | Note | Amount at<br>31 March<br>2021<br>£'000 | Historical<br>experience<br>of default<br>% | Adjustment<br>for market<br>conditions<br>at 31 March<br>2021<br>% | Estimated<br>maximum<br>exposure<br>to default<br>£ |
|---|------|--|---|--|---|
| General debtors   | a    | 422                                    | 8.8%  | 28.9%  | 122   |
| Housing rents   | a    | 1,845                                  | 54.6%                                       | 54.6%  | 1,008   |
| Other   | a    | 971                                    | 0%  | 0%   | 0   |
| In addition to the above Financial Instruments the Council is exposed to risk arising from non payment of statutory Housing Benefit debt and costs associated with Council Tax and Business Rates collection. The risks are shown below |      |  |   |  |   |
| Overpaid Housing Benefits   |      | 2,522                                  | 90.0%                                       | 90.0%  | 2,269   |
| Costs associated with Council Tax and Business Rates Collection   |      | 710                                    | 41.7%                                       | 41.7%  | 296   |
| (a) The council does not generally allow credit for customers and the estimated risks are covered by doubtful debt allowances which derive from aged debt analysis, historical experience and assessment of future collectability.      |      |  |   |  |   |

## Liquidity Risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loan maturities within approved parameters set out in the Council's approved treasury and investment strategies.

The maturity analysis of financial liabilities is as follows:

# NOTES TO THE FINANCIAL STATEMENTS

| <b>Maturity Structure of All Borrowings (excluding accrued interest)</b> |                          |                               |                |                                |               |                  |  |
|--|--------------------------|-------------------------------|----------------|--------------------------------|---------------|------------------|--|
| <b>31-Mar-20</b>   |                          |                               |                | <b>2020/21 Approved Limits</b> |               | <b>31-Mar-21</b> |  |
| <b>Amount</b>  | <b>Maturing within:-</b> |                               | <b>Minimum</b> | <b>Maximum</b>                 | <b>Amount</b> |                  |  |
| <b>£'000</b>   | <b>%</b>                 |                               | <b>%</b>       | <b>%</b>                       | <b>£'000</b>  | <b>%</b>         |  |
| 16,000   | 22.0%                    | Up to 1 year                  | 0%             | 30%                            | 12,100        | 19.0%            |  |
| 3,000  | 4.0%                     | Over 1 but not over 2 years   | 0%             | 25%                            | 3,100         | 5.0%             |  |
| 9,000  | 13.0%                    | Over 2 but not over 5 years   | 0%             | 25%                            | 11,300        | 17.0%            |  |
| 11,000   | 15.0%                    | Over 5 but not over 10 years  | 0%             | 20%                            | 6,500         | 10.0%            |  |
| 1,950  | 3.0%                     | Over 10 but not over 20 years | 0%             | 20%                            | 850           | 1.0%             |  |
| 2,000  | 3.0%                     | Over 20 but not over 40 years | 0%             | 20%                            | 4,000         | 6.0%             |  |
| 29,000   | 40.0%                    | Over 40 years                 | 0%             | 50%                            | 27,000        | 42.0%            |  |
| <b>71,950</b>  | <b>100.0%</b>            |                               |                |                                | <b>64,850</b> | <b>100.0%</b>    |  |

## Market Risk

**Interest Rate Risk** – The Council is exposed to interest rate movements on its borrowings and investments. Movement in interest rates can have a complex impact on the Council, for instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances)
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance.

The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of £285,000 on the 12-month revenue impact of a 1% fall and rise in interest rates. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would have been -£75,900 in 2020/21 (2019/20 £133,800).

The Council's Treasury Management Strategy currently includes as a source of borrowing the use of internal funds. The cash held in these funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally and reducing the Council's overall interest cost.

The Covid 19 pandemic has increased the risks described above. The Council has responded by reducing its unsecured investments and diverting investments into more secure and liquid instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## 19. Debtors

### Long Term Debtors

| 31-Mar-20<br>£'000                  | 31-Mar-21<br>£'000 |
|-------------------------------------|--------------------|
| 4,652 Finance Lease - Landing Stage | 4,612              |
| 84 Other entities and individuals   | 85                 |
| <b>4,736</b>                        | <b>4,697</b>       |

### Short Term Debtors (net of allowances for doubtful debts)

| 31-Mar-20<br>£'000                   | 31-Mar-21<br>£'000 |
|--------------------------------------|--------------------|
| 441 Central Government bodies        | 3,065              |
| 2,618 Other Local Authorities        | 5,855              |
| 3,474 Other entities and individuals | 4,026              |
| <b>6,533</b>                         | <b>12,946</b>      |

## 20. Cash and Cash Equivalents

| 31-Mar-20<br>£'000                                 | 31-Mar-21<br>£'000 |
|--|--------------------|
| 5,903 Money Market Funds                           | 7,500              |
| - Call Accounts                                    | 1,500              |
| 25 Cash imprests / cash in hand                    | 3                  |
| (68) Cash at bank / (Overdraft) [Grouped accounts] | 259                |
| <b>5,860</b>                                       | <b>9,262</b>       |

## 21. Creditors

### Long Term Creditors

| 31-Mar-20<br>£'000                     | 31-Mar-21<br>£'000 |
|--|--------------------|
| (1,120) Other entities and individuals | (1,121)            |
| <b>(1,120)</b>                         | <b>(1,121)</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

## Short Term Creditors

| 31-Mar-20<br>£'000 |                                | 31-Mar-21<br>£'000 |
|--------------------|--------------------------------|--------------------|
| (4,473)            | Central Government bodies      | (10,835)           |
| (889)              | Other Local Authorities        | (709)              |
| (1,703)            | Other entities and individuals | (3,630)            |
| <b>(7,065)</b>     |                                | <b>(15,174)</b>    |

## 22. Provisions

|                           | Short Term (S)<br>Long Term (L) | Balance<br>01-Apr-20<br>£'000 | < -----<br>Additional<br>provisions<br>made<br>£'000 | 2020/21<br>Amounts<br>used<br>£'000 | > -----<br>Unused<br>amounts<br>reversed<br>£'000 | Balance<br>31-Mar-21<br>£'000 |
|---------------------------|---------------------------------|-------------------------------|--|-------------------------------------|---|-------------------------------|
| Business Rates Appeals    | S                               | (1,377)                       | (35)   | 439                                 | 1   | (972)                         |
| MMI Scheme of Arrangement | S                               | (37)                          | (5)  | 42                                  |   | 0                             |
| MMI Scheme of Arrangement | L                               | (45)                          |  |                                     |   | (45)                          |
|                           |                                 | <b>(1,459)</b>                | <b>(40)</b>  | <b>481</b>                          | <b>1</b>  | <b>(1,017)</b>                |

The provision for Business Rates valuation appeals is required by Business Rates Retention funding system - the Council's share of the total provision of £2.431 million is £0.972 million. Provisions for doubtful debts are included within Note 19.

## 23. Agency Services

A contribution is paid by the County Council towards grass cutting (environmental maintenance) and this is summarised below.

| 31-Mar-20<br>£'000 |  | 31-Mar-21<br>£'000 |
|--------------------|--|--------------------|
| 145                | Grasscutting   | 131                |
| (98)               | Hampshire County Council contribution  | (95)               |
|                    | - Payment of Various Business Rate Lockdown Grants on Behalf of Central Government | 16,590             |
| <b>47</b>          |  | <b>16,626</b>      |

## 24. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations.

The Council's main reserves are described below:

### Revenue - General Fund

#### General Fund balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and

# NOTES TO THE FINANCIAL STATEMENTS

payments should impact on the balance. It is effectively a working balance for both unforeseen events and fluctuating income streams. It may not be used to fund HRA services.

## **Revenue Financing Reserve**

A reserve available for general use, although it is particularly targeted at ensuring that fluctuations in annual maintenance requirements can be met, underwriting uninsured risks and funding spend-to-save revenue and capital initiatives.

## **Stability and Resilience Reserve**

To cover the risk and volatility arising from the introduction of the Business Rate Retention and Council Tax Support Schemes together with the uncertainties in future levels of Revenue Support Grant.

## **Other Usable Reserves**

Represent earmarked sums for contributing to specific service revenue expenditure includes commuted sums, major contract reserves and safety and housing related grants.

## **Revenue - Housing Revenue Account**

### **HRA balance**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years. It provides a working balance for Housing services and for unforeseen events.

### **Major Repairs, New Build and Loan Repayment Reserve**

The reserve created to provide funding as described in the title.

## **Capital – General Fund**

The Capital Receipts reserve holds proceeds from land and other asset disposals and may only be utilised to fund capital expenditure. The balance of £54,000 is the residual receipt from the sale of Camden Allotments which must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

## **Capital – Housing Revenue Account**

Capital reserves from retained right to buy receipts which are to be used for the repayment of debt or new capital financing and the construction of new affordable housing.

### **Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows any capital resources that have yet to be applied at the year-end.

# NOTES TO THE FINANCIAL STATEMENTS

The detailed balances and movements on usable reserves are shown below:

|  | 2019/20         |                |              |                 | 2020/21        |              |                 |
|--|-----------------|----------------|--------------|-----------------|----------------|--------------|-----------------|
|  | 01-Apr-19       | Transfers      | Transfers    | 31-Mar-20       | Transfers      | Transfers    | 31-Mar-21       |
|  | £'000           | In<br>£'000    | Out<br>£'000 | £'000           | In<br>£'000    | Out<br>£'000 | £'000           |
| <b>Revenue</b>                         |                 |                |              |                 |                |              |                 |
| <b>General Fund Balance</b>            | <b>(890)</b>    | <b>(110)</b>   |              | <b>(1,000)</b>  |                |              | <b>(1,000)</b>  |
| <b>Earmarked General Fund Reserves</b> |                 |                |              |                 |                |              |                 |
| Revenue Financing Reserve              | (4,104)         | (346)          | 358          | (4,092)         | (1,354)        | 542          | (4,904)         |
| Stability & Resilience Reserve *       | (2,028)         |                | 200          | (1,828)         | (2,546)        |              | (4,374)         |
| Cherque Farm Open Space                | (179)           |                | 19           | (160)           |                | 19           | (141)           |
| Supporting Troubled Families           | (106)           | (8)            | 5            | (109)           | (2)            | 6            | (105)           |
| Housing Renewal Grant                  | (9)             |                |              | (9)             |                |              | (9)             |
| Priddys Play Area Maintenance          | (43)            |                | 5            | (38)            |                | 5            | (33)            |
| Building Control Partnership           | (97)            | (26)           | 11           | (112)           |                | 11           | (101)           |
| Community Safety Partnership           | (65)            | (1)            | 20           | (46)            |                | 1            | (45)            |
| Preventing Repossessions               | (14)            |                |              | (14)            |                |              | (14)            |
| High Street Innovations                | (23)            |                |              | (23)            |                | 23           | 0               |
| Open Spaces Maintenance                | (20)            |                | 2            | (18)            |                | 3            | (15)            |
| Bus Shelter Maintenance                | (30)            |                |              | (30)            |                |              | (30)            |
| Business Growth Incentive Grant        | (22)            |                | 22           | 0               | (22)           |              | (22)            |
| Urbaser Contract Reserve               | (100)           | (7)            |              | (107)           | (109)          |              | (216)           |
| Royan Twinning Fund                    | (7)             |                | 2            | (5)             |                |              | (5)             |
| Cherque Farm Land Transfer             | (6)             |                | 1            | (5)             |                |              | (5)             |
| Healthy Homes                          | (23)            |                | 2            | (21)            |                | 1            | (20)            |
| CCTV Monitoring                        | (7)             |                | 2            | (5)             |                |              | (5)             |
| Education Fund                         | (4)             |                |              | (4)             |                |              | (4)             |
| Hermitage Wildlife Garden              | (8)             |                |              | (8)             |                | 2            | (6)             |
| Benefits DWP External Funding          | (22)            | (17)           | 27           | (12)            | (7)            | 12           | (7)             |
| Homeless Support Grant Reserve         | (499)           | (96)           |              | (595)           | (112)          | 112          | (595)           |
| Planning DCLG Grants Reserve           | (69)            | (18)           |              | (87)            |                | 5            | (82)            |
| EU Exit Preparation                    | (18)            | (22)           |              | (40)            |                | 40           | 0               |
| COVID-19 Govt Grant Reseve             | -               | (17)           |              | (17)            |                | 17           | 0               |
| Income Compensation Reserve            | -               |                |              | -               | (382)          |              | (382)           |
| Civic Events Reserve                   | -               | (15)           |              | (15)            |                |              | (15)            |
|  | <b>(7,503)</b>  | <b>(573)</b>   | <b>676</b>   | <b>(7,400)</b>  | <b>(4,534)</b> | <b>799</b>   | <b>(11,135)</b> |
| <b>Housing Revenue Account</b>         |                 |                |              |                 |                |              |                 |
| Housing Revenue Account                | (992)           |                |              | (992)           |                |              | (992)           |
| New Build & Loan Repayment Reserve     | (3,612)         | (747)          | 861          | (3,498)         | (442)          | 196          | (3,744)         |
|  | <b>(4,604)</b>  | <b>(747)</b>   | <b>861</b>   | <b>(4,490)</b>  | <b>(442)</b>   | <b>196</b>   | <b>(4,736)</b>  |
| <b>Capital</b>                         |                 |                |              |                 |                |              |                 |
| Capital Receipts Reserve (GF)          | (54)            |                |              | (54)            | (238)          | 238          | (54)            |
| Revenue Reserve for Capital (GF)       | (656)           | (538)          | 697          | (497)           | (392)          | 257          | (632)           |
| Capital Receipts Reserve (HRA)         | (322)           | (600)          | 922          | 0               | (602)          | 602          | 0               |
| Capital Receipts New Build (HRA)       | (1,333)         | (479)          | 623          | (1,189)         | (104)          | 178          | (1,115)         |
| Major Repairs Reserve (HRA)            | -               |                |              | -               | (3,027)        | 2,215        | (812)           |
| Capital Grants Unapplied (CIL)         | (862)           | (172)          | 28           | (1,006)         | (329)          | 81           | (1,254)         |
|  | <b>(3,227)</b>  | <b>(1,789)</b> | <b>2,270</b> | <b>(2,746)</b>  | <b>(4,692)</b> | <b>3,571</b> | <b>(3,867)</b>  |
| <b>Total Usable Reserves</b>           | <b>(16,224)</b> | <b>(3,219)</b> | <b>3,807</b> | <b>(15,636)</b> | <b>(9,668)</b> | <b>4,566</b> | <b>(20,738)</b> |

\* The Stability and Resilience reserve includes an exceptional balance of £2.673m being S31 grant received to offset reliefs given to businesses during lockdown. This is not additional resource; it is required to offset the council's business rate collection fund deficit at 31st March 2021 as shown in note 25

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Unusable Reserves

| 31-Mar-20<br>£'000                        | 31-Mar-21<br>£'000 |
|---|--------------------|
| (59,607) Revaluation Reserve              | (67,287)           |
| (52,813) Capital Adjustment Account       | (48,588)           |
| (4,690) Deferred Capital Receipts Reserve | (4,652)            |
| 40,509 Net Pension Reserve                | 43,869             |
| (476) Collection Fund Adjustment Account  | 2,583              |
| 109 Accumulated Absences Account          | 224                |
| <b>(76,968)</b>                           | <b>(73,851)</b>    |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| <b>(56,625)</b> Balance at 1 April   | <b>(59,607)</b>  |
| (4,862) Upward revaluation of assets   | (9,863)          |
| 1,522 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services               | 1,936            |
| <b>(3,340)</b> Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | <b>(7,927)</b>   |
| 358 Difference between fair value depreciation and historical cost depreciation  | 247              |
| <b>358</b> Amount written off to the Capital Adjustment Account  | <b>247</b>       |
| <b>(59,607)</b> Balance at 31 March  | <b>(67,287)</b>  |

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the

# NOTES TO THE FINANCIAL STATEMENTS

costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on investment properties and any gains recognised on any donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2019/20<br>£'000 |  | 2020/21<br>£'000 |
|------------------|--|------------------|
| (55,509)         | Balance at 1 April   | (52,813)         |
|                  | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                                   |                  |
|                  | 4,485 Charges for depreciation, impairment of noncurrent assets  | 4,422            |
|                  | 534 Revaluation losses on Property, Plant and Equipment  | 932              |
|                  | 123 Amortisation of intangible assets  | 94               |
|                  | 420 Revenue expenditure funded from capital under statute  | 487              |
|                  | 5,266 Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 3,138            |
| <b>10,828</b>    |  | <b>9,073</b>     |
| (358)            | Adjusting amounts written out of the Revaluation Reserve   | (247)            |
| <b>10,470</b>    | <b>Net written out amount of the cost of non-current assets consumed in the year</b>   | <b>8,826</b>     |
|                  | Capital financing applied in the year:   |                  |
| (1,294)          | Use of the Capital Receipts Reserve to finance new capital expenditure and reduce CFR  | (696)            |
| (3,018)          | Use of the Major Repairs Reserve to finance new capital expenditure  | (2,215)          |
| (398)            | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing                    | (367)            |
| (793)            | Application of grants to capital financing from the Capital Grants Unapplied Account   | (373)            |
|                  | - Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances                                  | (202)            |
| (1,708)          | Capital expenditure charged against the General Fund and HRA balances  | (845)            |
| <b>(7,211)</b>   |  | <b>(4,698)</b>   |
| (563)            | <b>Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement</b>                        | <b>97</b>        |
| <b>(52,813)</b>  | <b>Balance at 31 March</b>   | <b>(48,588)</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

## Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| (4,726) Balance at 1 April                                       | (4,690)          |
| 36 Transfer to the Capital Receipts Reserve upon receipt of cash | 38               |
| <b>(4,690) Balance at 31 March</b>                               | <b>(4,652)</b>   |

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| 38,620 Balance at 1 April  | 40,509           |
| 732 Remeasurements of the net defined benefit liability/(asset)  | 1,566            |
| 3,089 Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 3,095            |
| (1,932) Employer's pensions contributions and direct payments to pensioners payable in the year  | (1,301)          |
| <b>40,509 Balance at 31 March</b>  | <b>43,869</b>    |

## Collection Fund Adjustment Account

This account manages the differences arising from the recognition of council tax and business rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The 2020/21 deficit balance on the Business Rates account includes an exceptional deficit balance of £2.561m arising from reliefs given to businesses during lockdown and will be funded by additional S31 grant received in 2020/21 and held in the balance of the Stability and Resilience reserve at 31<sup>st</sup> March 2021 (see note 24).

# NOTES TO THE FINANCIAL STATEMENTS

| 2019/20              |                         |  | 2020/21              |                         |
|----------------------|-------------------------|--|----------------------|-------------------------|
| Council Tax<br>£'000 | Business Rates<br>£'000 |  | Council Tax<br>£'000 | Business Rates<br>£'000 |
| (59)                 | (2)                     | Balance at 1 April   | 16                   | (492)                   |
| 75                   | (490)                   | Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | 23                   | 3,036                   |
| <b>16</b>            | <b>(492)</b>            | <b>Balance at 31 March (Surplus) / Deficit</b>   | <b>39</b>            | <b>2,544</b>            |

## Accumulated Absences Account

The account absorbs the differences from accruing for compensated absences earned but not taken in the year i.e. annual leave entitlement carried forward at 31 March and statutory arrangements requiring the impact on the General Fund Balance is neutralised by transfers to or from this Account.

## 26. Members' Allowances

The following amounts were paid to members during the year. A detailed breakdown is on the Council's website at <http://www.gosport.gov.uk/sections/democratic-services/members-allowances/>

| 2019/20<br>£'000 | 2020/21<br>£'000 |
|------------------|------------------|
| 256 Allowances   | 272              |
| 1 Expenses       | 2                |
| <b>257</b>       | <b>274</b>       |

## 27. Officers Remuneration

| Number of employees 2019/20 | Left during 2019/20 | The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were: | Number of employees 2020/21 | Left during 2020/21 |
|-----------------------------|---------------------|--|-----------------------------|---------------------|
|                             |                     | Remuneration band  |                             |                     |
| 5                           | -                   | £50,000 - £54,999  | 9                           | -                   |
| 3                           | -                   | £55,000 - £59,999  | 4                           | -                   |
| 2                           | -                   | £60,000 - £64,999  | 1                           | -                   |
| 1                           | -                   | £65,000 - £69,999  | 1                           | -                   |
| -                           | -                   | £70,000 - £74,999  | 1                           | -                   |

# NOTES TO THE FINANCIAL STATEMENTS

## Exit Packages

| Exit package cost band (including special repayments) | Number of compulsory redundancies |          | Number of other departures agreed |          | Total number of exit packages by cost band |          | Total cost of exit packages in each band £000's |          |
|---|-----------------------------------|----------|-----------------------------------|----------|--|----------|---|----------|
|   | 2019/20                           | 2020/21  | 2019/20                           | 2020/21  | 2019/20                                    | 2020/21  | 2019/20   | 2020/21  |
| £0 - £20,000  | 0                                 | 0        | 1                                 | 0        | 1  | 0        | 20  | 0        |
| £20,001 - £40,000                                     | 1                                 | 0        | 1                                 | 0        | 2  | 0        | 55  | 0        |
| £40,001 - £60,000                                     | 0                                 | 0        | 0                                 | 0        | 0  | 0        | 0   | 0        |
| £60,001 - £80,000                                     | 0                                 | 0        | 0                                 | 0        | 0  | 0        | 0   | 0        |
|   | <b>1</b>                          | <b>0</b> | <b>2</b>                          | <b>0</b> | <b>3</b>                                   | <b>0</b> | <b>75</b>                                       | <b>0</b> |

### SENIOR OFFICER EMOLUMENTS (Salaries more than £50,000 but less than £150,000 per year)

The roles of the Chief Executive, Borough Solicitor and Deputy Chief Executive (until 15<sup>th</sup> May 2019) and Borough Treasurer are, fulfilled (from 1<sup>st</sup> October 2016) by Portsmouth City Council under a shared management arrangement. The remuneration details of the equivalent posts are disclosed in full by Portsmouth City Council at <https://www.portsmouth.gov.uk/ext/the-council/transparency/transparency-agenda.aspx>

The amount recharged to Gosport Borough Council relating to these posts is set out below.

| 2019/20<br>£000's                            | 2020/21<br>£000's |
|--|-------------------|
| 68 Chief Executive                           | 69                |
| 9 Borough Solicitor & Deputy Chief Executive | -                 |
| 49 Borough Treasurer                         | 50                |
| <b>126</b>                                   | <b>119</b>        |

# NOTES TO THE FINANCIAL STATEMENTS

| 2020/21  |       |                                     |                       |   |                          |   |
|--|-------|-------------------------------------|-----------------------|---|--------------------------|---|
| Senior Officer Emoluments - Salaries more than £50,000 but less than £150,000 per year |       |                                     |                       |   |                          |   |
| Post Title   | Notes | Salary<br>(Including<br>Allowances) | Expense<br>Allowances | Total<br>Remuneration<br>excluding<br>pension<br>contributions<br>2020/21 | Pension<br>Contributions | Total<br>Remuneration<br>including<br>pension<br>contributions<br>2020/21 |
|  |       | £                                   | £                     | £   | £                        | £   |
| Assistant to the Chief<br>Executive and Head of<br>Planning and Regeneration           |       | 78,869                              | -                     | 78,869  | 15,379                   | 94,248  |
|  |       | <b>78,869</b>                       | <b>0</b>              | <b>78,869</b>   | <b>15,379</b>            | <b>94,248</b>   |

## 28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims provided by the Council's external auditors.

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
|                  | Fee payable to Ernst & Young with regard to external audit services carried out by appointed auditors |                  |
| 41               | External audit services   | 41               |
| <b>41</b>        |   | <b>41</b>        |

# NOTES TO THE FINANCIAL STATEMENTS

## 29. Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2020/21.

| 2019/20<br>£'000 | Grant Income  | 2020/21<br>£'000 |
|------------------|---|------------------|
|                  | <b>Included in Taxation and Non Specific Grant Income</b>                                   |                  |
|                  | <u>Non-Ringfenced Government Grants</u>   |                  |
|                  | Department for Communities and Local Government:  |                  |
| (274)            | New Homes Bonus Grant   | (86)             |
| (114)            | New Burdens Grants - various  | (56)             |
| (1,060)          | S31 - Business Rate Relief Grants   | (3,982)          |
| (44)             | Covid 19 Local Authority Support Grant  | (1,284)          |
| -                | Covid 19 - New Burdens Grants   | (210)            |
| -                | Covid 19 - Various Public Health Grants   | (177)            |
|                  | Department for Work and Pensions  |                  |
| (380)            | HB / CTB Administration   | (371)            |
| (182)            | <u>Community Infrastructure Levy</u>  | (346)            |
| <b>(2,054)</b>   |   | <b>(6,512)</b>   |
|                  | <u>Capital Grants and Contributions</u>   |                  |
| (221)            | Developers Contributions - Open Spaces  | (7)              |
| (44)             | Heritage Action Zone  | (11)             |
| (87)             | Local Enterprise Partnership - Daedalus Regeneration  | -                |
| (441)            | Coast Protection  | (355)            |
| <b>(793)</b>     |   | <b>(373)</b>     |
|                  | <b>Service Specific Revenue Grants and Contributions<br/>(included in cost of services)</b> |                  |
|                  | <u>Department for Work and Pensions</u>   |                  |
| (21,788)         | HB / CTB Subsidy  | (20,154)         |
|                  | <u>Environment Agency</u>   |                  |
|                  | <u>Department for Communities and Local Government</u>                                      |                  |
| (398)            | Disabled Facilities Grant   | (367)            |
| (77)             | NNDR Cost of Collection   | (75)             |
| (432)            | Homelessness Prevention Grants  | (689)            |
| -                | Re-opening High Street Grant  | (16)             |
| (25)             | Historic England Grant  | (113)            |
| (18)             | One Public Estate (studies / option appraisals)   | -                |
| -                | Covid 19 - Sales, Fees and Charges Grant  | (624)            |
| -                | Covid 19 - Council Tax Hardship Fund  | (481)            |
| -                | Covid 19 - Discretionary Business Rate Grants   | (721)            |
| -                | Covid 19 - Leisure Centre Support Grant   | (114)            |
| -                | Covid 19 - Other grants   | (192)            |
|                  | <u>Cabinet Office</u>   |                  |
| (17)             | Elections / Register of Electors Grants   | (16)             |
| <b>(22,755)</b>  |   | <b>(23,562)</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

## Receipts in Advance

In addition, the Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them which could require their return to the giver – a possibility that the Council seeks to mitigate by pro-actively managing the monies held. An analysis of these sums is shown below analysed between Capital and Revenue Grants

| 2019/20<br>£'000   | 2020/21<br>£'000 |
|--|------------------|
| <b>Receipts in Advance - Revenue Grants</b>              |                  |
| - Covid 19 - Discretionary Business Rates Grants         | (2,372)          |
| - Covid 19 - Hardship Fund                               | (79)             |
| - Covid 19 - Discretionary Self Isolation Payments Grant | (67)             |
| - Other grants and contributions                         | (108)            |
| <b>0</b>   | <b>(2,626)</b>   |

| 2019/20<br>£'000                            | 2020/21<br>£'000 |
|---|------------------|
| <b>Receipts in Advance - Capital Grants</b> |                  |
| (10) Affordable Housing                     | (10)             |
| (747) Open Spaces and Play Areas            | (1,050)          |
| (623) Transport Contributions               | (639)            |
| (1,074) Disabled Facilities Grant           | (1,620)          |
| (130) Other grants and contributions        | (297)            |
| <b>(2,584)</b>                              | <b>(3,616)</b>   |

## 30. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (i.e. council tax bills, housing benefits). Grants received from government departments are included in Note 29.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in Note 26. There were no other material related party transactions during the year

### Officers

There were no related party transactions during the year by officers of the Council.

# NOTES TO THE FINANCIAL STATEMENTS

## Portsmouth City Council – Shared Management arrangements

In June 2016, the Council approved entering into a shared management arrangement with Portsmouth City Council (PCC). This encompasses the following posts and functions: Chief Executive; Borough Treasurer; Borough Solicitor; Housing Services; Personnel and Pay and Central Services and other services as required.

During 2020/21, the Council paid PCC £593,710 (£718,425 in 2019/20).

There is no political merger and the two Councils remain distinct and separate entities, the collaboration is at officer level only.

## Gosport and Fareham Building Control Partnership

The Partnership provides building control services on behalf of Gosport Borough Council, Fareham Borough Council and Portsmouth City Council; it has been in operation since 2003 and was expanded to include Portsmouth City Council from May 2015. During 2020/21, the Partnership charged Gosport Borough Council £59,382 (£143,503 in 2019/20) for statutory building control services. The Partnership has a policy of dividing generated surpluses between authorities based on fee generating work from each Authority. At the 31 March 2021, the balance of retained surplus for future investment in the service held by Gosport Borough Council was £100,627 (£111,924 in 2019/20), £167,236 (£188,800 in 2019/20) by Fareham Borough Council and £64,287 (£82,771 in 2019/20) by Portsmouth City Council.

## Gosport and Fareham Environmental Services Partnership

The Gosport and Fareham Environmental Health Partnership provides environmental health services to both Fareham and Gosport Borough Council. The Partnership has been in operation since 2014. During 2020/21, the Partnership charged Gosport Borough Council £619,094 for statutory environmental health services (£641,939 in 2019/20). The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

## Portchester Crematorium

The crematorium is a joint arrangement managed by the Council along with 3 neighbouring authorities through the Portchester Crematorium Joint Committee. The four constituent authorities: Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council are equally represented – each having a 25% share. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham.

During 2020/21 the Council received £200,000 (£160,000 in 2019/20) from the Joint Committee being its share of the distributable surpluses. The Council's 25% share of the crematorium's assets, liabilities, income and expenditure for 2020/21 are shown below

| 2019/20<br>£'000                                     | 2020/21<br>£'000 |
|--|------------------|
| <b>Portchester Crematorium - Gosport share (25%)</b> |                  |
| 1,915 Long Term Assets                               | 1,866            |
| 758 Current Assets                                   | 809              |
| (16) Current Liabilities                             | (9)              |
| (198) Long Term Liabilities                          | (221)            |
| (742) Usable Reserves                                | (800)            |
| (1,717) Unusable Reserves                            | (1,645)          |
| <b>0</b>   | <b>0</b>         |
| (534) Income   | (593)            |
| 533 Expenditure                                      | 593              |

# NOTES TO THE FINANCIAL STATEMENTS

## Other Public Bodies

Subject to a common control by central government, transactions with other public bodies are shown below:

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 34,996           | Hampshire County Council                            | 36,145           |
| 5,471            | Hampshire Police & Crime Commissioners              | 5,697            |
| 1,994            | Hampshire Fire & Rescue Authority                   | 2,026            |
| 1,932            | Hampshire County Council<br>Fareham Borough Council | 1,301            |
| 853              |   | 881              |
| (213)            |   | (220)            |
| (5)              | Test Valley Borough Council                         | -                |

### 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of any assets acquired under finance leases contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

| 2019/20<br>£'000 |   | 2020/21<br>£'000 |
|------------------|---|------------------|
| <b>81,707</b>    | <b>Opening Capital Financing Requirement</b>  | <b>82,475</b>    |
|                  | <u>Capital Investment</u>   |                  |
| 7,442            | Plant, Property & Equipment   | 3,933            |
| 51               | Heritage Assets   | 36               |
| 48               | Investment Properties   | -                |
| 18               | Intangible Assets   | 40               |
| 420              | Revenue Expenditure funded from Capital under Statute                                   | 487              |
|                  | <u>Sources of Finance</u>   |                  |
| (1,294)          | Capital Receipts  | (696)            |
| (1,191)          | Government Grants & Other Contributions   | (740)            |
| (4,726)          | GF and HRA Revenue and Reserves including Major Repairs Reserve                         | (3,060)          |
|                  | <u>Other Adjustments</u>  |                  |
|                  | - Sums set aside from Revenue (including Minimum and Voluntary Repayments of Principal) | (202)            |
| <b>82,475</b>    | <b>Closing Capital Financing Requirement</b>  | <b>82,273</b>    |
|                  | <b>Explanation of Movements in year</b>   |                  |
| 768              | Increase in underlying need to borrow (unsupported)                                     | -                |
|                  | - (Decrease) in underlying need to borrow due to MRP, VRP and lease payments            | (202)            |
| <b>768</b>       | <b>(Decrease) / Increase in Capital Financing Requirement</b>                           | <b>(202)</b>     |

# NOTES TO THE FINANCIAL STATEMENTS

## Revenue Expenditure Funded From Capital under Statute

Revenue expenditure funded from capital under statute represents capital expenditure that does not result in the creation of an asset. Revenue expenditure funded from capital under statute during the year is shown below.

|                       | 2019/20<br>£'000 | 2020/21<br>£'000 |
|-----------------------|------------------|------------------|
| Housing Grants        | 398              | 367              |
| Other Capital Schemes | 22               | 120              |
| <b>Total</b>          | <b>420</b>       | <b>487</b>       |

## 32. Leases

### Council as Lessee

#### Finance Leases

The Council does not currently have any items held under finance leases.

#### Operating Leases

The Council has lease arrangements for vehicles, land and also uses a number of properties for temporary accommodation for its clients under short term licence arrangements.

The future estimated minimum lease payments are:

|   | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 |
|---|--------------------|--------------------|
| Not later than one year                           | 917                | 896                |
| Later than one year and not later than five years | 2,283              | 2,665              |
| Later than five years                             | -                  | 46                 |
|   | <u>3,200</u>       | <u>3,607</u>       |

The expenditure charged to the Cost of Services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

|                        | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 |
|------------------------|--------------------|--------------------|
| Minimum lease payments | 996                | 993                |
|                        | <u>996</u>         | <u>993</u>         |

# NOTES TO THE FINANCIAL STATEMENTS

## Council as Lessor

### Finance Leases

The Council has entered into a finance lease for the Gosport Ferry Landing Stage over a term of 50 years. The Landing Stage opened on 27 June 2011.

|                               | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 |
|-------------------------------|--------------------|--------------------|
| Finance lease debtor          |                    |                    |
| current                       | 38                 | 40                 |
| non current                   | 4,652              | 4,612              |
| Unearned finance income       | 6,035              | 5,813              |
| Gross investment in the lease | 10,725             | 10,465             |

The minimum lease payments will be payable over the following periods:

|  | Gross Investment in<br>the Lease |                    | Finance Lease<br>payments |                    |
|--|----------------------------------|--------------------|---------------------------|--------------------|
|  | 31-Mar-20<br>£'000               | 31-Mar-21<br>£'000 | 31-Mar-20<br>£'000        | 31-Mar-21<br>£'000 |
| Not later than one year                        | 260                              | 260                | 260                       | 260                |
| Later than one year, not later than five years | 1,040                            | 1,040              | 1,040                     | 1,040              |
| Later than five years                          | 9,425                            | 9,165              | 9,425                     | 9,165              |
|  | 10,725                           | 10,465             | 10,725                    | 10,465             |

### Operating Leases

The Council leases out land and property under operating leases primarily for:

- the provision of community services
- economic development purposes
- the lease of the seabed and dolphins for the ferry landing stage

The future minimum lease payments receivable under non-cancellable leases in future years are:

|   | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 |
|---|--------------------|--------------------|
| Not later than one year                           | 654                | 634                |
| Later than one year and not later than five years | 2,617              | 2,579              |
| Later than five years                             | 15,865             | 14,833             |
|   | 19,136             | 18,046             |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

During 2015/16, the Council received a premium payment of £150,000 in respect of a revision to one of these leases. This is being credited to the Cost of Services over the life of the lease and is included in the balance sheet as deferred income as follows.

|   | 31-Mar-20<br>£'000 | 31-Mar-21<br>£'000 |
|---|--------------------|--------------------|
| Not later than one year                           | 1                  | 1                  |
| Later than one year and not later than five years | 4                  | 4                  |
| Later than five years                             | 140                | 140                |
|   | 145                | 145                |

# NOTES TO THE FINANCIAL STATEMENTS

## 33. Pensions

### Introduction

**Funded** - the disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS'). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'.

The council has pre-paid (£3.2million) its LGPS employer contribution for the 3 year period 1<sup>st</sup> April 2020 – 31<sup>st</sup> March 2023 in order to receive a discount from the Hampshire Pension Fund) to benefit from a discounted employer contribution being offered by the Hampshire Pension Fund.

**Unfunded** - the unfunded pension arrangements established by Gosport Borough Council relate to termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. No Pension Fund exists to meet these benefits

### Funding / Governance Arrangements of the LGPS

The funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2019 and the contributions to be paid until 31 March 2023 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate.

The Fund Administering Authority, Hampshire County Council, is responsible for the governance of the Fund.

### Risks associated with the Fund in relation to accounting

**Asset volatility** - the liabilities used for accounting purposes are calculated using a discount rate set with reference to corporate bond yields. If assets underperform this yield this will create a deficit in the accounts. The Fund holds a significant proportion of growth assets which while expected to outperform corporate bonds in the long term creates volatility and risk in the short term in relation to the accounting figures.

**Changes in Bond Yield** - a decrease in corporate bond yields will increase the value placed on the liabilities for accounting purposes although this will be marginally offset by the increase in the assets as a result.

**Inflation Risk** - the majority of the pension liabilities are linked to either pay or price inflation. Higher inflation expectations will lead to a higher liability value. The assets are either unaffected or loosely correlated with inflation meaning that an increase in inflation will increase the deficit.

**Life expectancy** - the majority of the Fund's obligations are to provide benefits for the life of the member following retirement, so increases in life expectancy will result in an increase in the liabilities.

**Exiting employers** - employers who leave the Fund (or their guarantor) may have to make an exit payment to meet any shortfall in assets against their pension liabilities. If the employer (or guarantor) is not able to meet this exit payment the liability may in certain circumstances fall on other employers in the Fund. Further, the assets at exit in respect of 'orphan liabilities' may, in retrospect, not be sufficient to meet the liabilities. This risk may fall on other employers. 'Orphan liabilities' are currently a small proportion of the overall liabilities in the Fund.

# NOTES TO THE FINANCIAL STATEMENTS

## Fund Actuaries

The reported figures and disclosure notes below are predominantly supplied by AON Hewitt Limited, the independent actuaries to the Fund.

## Estimated pension expenses for the year ending 31 March 2022

The actuary has provided the following estimates of the pension expense recognised in the Comprehensive Income and Expenditure Statement in 2021/22 based on assumptions at 31<sup>st</sup> March 2021.

**Funded Benefits** - £3.95m,

**Unfunded Benefits** - £0.46m

## Assumptions

The latest actuarial valuation of Gosport Borough Council's funded liabilities and unfunded LGPS benefits took place as at 31 March 2019. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

| 2019/20 | Key assumptions (% per annum)     | 2020/21 |
|---------|-----------------------------------|---------|
|         | <b><u>Funded</u></b>              |         |
| 2.3%    | Discount rate                     | 2.1%    |
| 2.0%    | CPI Inflation                     | 2.7%    |
| 2.0%    | Pension increases                 | 2.7%    |
| 2.0%    | Pension accounts revaluation rate | 2.7%    |
| 3.0%    | Salary increases                  | 3.7%    |
|         | <b><u>Unfunded</u></b>            |         |
| 2.3%    | Discount rate                     | 2.1%    |
| 2.0%    | CPI Inflation                     | 2.7%    |
| 2.0%    | Pension increases                 | 2.7%    |

| 2019/20 | Assumed life expectancy at age 65 | 2020/21 |
|---------|-----------------------------------|---------|
|         | <b><u>Males</u></b>               |         |
| 23.0    | Member aged 65 at accounting date | 23.1    |
| 24.7    | Member aged 45 at accounting date | 24.8    |
|         | <b><u>Females</u></b>             |         |
| 25.5    | Member aged 65 at accounting date | 25.5    |
| 27.2    | Member aged 45 at accounting date | 27.3    |

# NOTES TO THE FINANCIAL STATEMENTS

## Transactions Relating to Post-Employment Benefits

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year

| 2019/20  |                   | Transactions relating to Post-employment Benefits  | 2020/21         |                   |
|--|-------------------|--|-----------------|-------------------|
| Funded<br>£'000  | Unfunded<br>£'000 |  | Funded<br>£'000 | Unfunded<br>£'000 |
| <b><u>Comprehensive Income and Expenditure Statement</u></b>   |                   |  |                 |                   |
| <b>Cost of Services</b>  |                   |  |                 |                   |
| 2,185  |                   | - Current service costs #  | 2,178           | -                 |
| -  |                   | - Past service costs   | -               | -                 |
| -  |                   | - Settlement cost  | -               | -                 |
| <b>Financing and Investment Income and Expenditure</b>         |                   |  |                 |                   |
| 844  | 60                | Interest on net defined benefit liability  | 867             | 50                |
| <b>3,029</b>   | <b>60</b>         | <b>Pension expense recognised in the Surplus or Deficit on the Provision of Services</b> | <b>3,045</b>    | <b>50</b>         |
| <b>Remeasurements of the Net Defined Liability, comprising</b> |                   |  |                 |                   |
| 3,064  |                   | - Return on plan assets (in excess of) / below that recognised in net interest           | (17,811)        | -                 |
| (2,917)  | (17)              | Actuarial (gains) / losses due to change in financial assumptions                        | 20,705          | 161               |
| (3,019)  | (40)              | Actuarial (gains) / losses due to changes in demographic assumptions                     | -               | -                 |
| 3,779  | (118)             | Actuarial (gains) / losses due to liability experience                                   | (1,457)         | (32)              |
| <b>907</b>   | <b>(175)</b>      | <b>Total amount recognised in Other Comprehensive Income and Expenditure</b>             | <b>1,437</b>    | <b>129</b>        |
| <b>3,936</b>   | <b>(115)</b>      | <b>Total included in Comprehensive Income and Expenditure Statement</b>                  | <b>4,482</b>    | <b>179</b>        |
| <b><u>Movement in Reserves Statement</u></b>                   |                   |  |                 |                   |
| (3,029)  | (60)              | Reversal of charges made for retirement benefits   | (3,045)         | (50)              |
| 1,751  | 181               | Inclusion of employers contributions payable   | 1,128           | 173               |
| <b>(1,278)</b>   | <b>121</b>        | <b>Total included in Movement in Reserves Statement</b>                                  | <b>(1,917)</b>  | <b>123</b>        |
| 17   |                   | # Allowance for administration expenses included in current service cost                 | 18              |                   |

# NOTES TO THE FINANCIAL STATEMENTS

| 2019/20<br>£'000                                    | 2020/21<br>£'000 |
|---|------------------|
| <b>Employers contributions paid to Pension Fund</b> |                  |
| 1,751 Normal Funded Contributions                   | 1,128            |
| <b>Employers contributions paid to Pensioners</b>   |                  |
| 181 Discretionary / Unfunded Added Years            | 173              |
| <b>1,932</b>  | <b>1,301</b>     |

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Council's obligation in respect of the LGPS is as follows

| 31-Mar-20<br>£m  | Reconciliation to Balance Sheet                       | 31-Mar-21<br>£m |
|--|---|-----------------|
| <b>Funded</b>  |   |                 |
| 78.730   | Fair value of assets                                  | 96.500          |
| (116.965)  | Present value of funded defined benefit obligation    | (138.089)       |
| (38.235)   | Funded status   | (41.589)        |
|  | - Impact of minimum funding requirement/asset ceiling | -               |
| (38.235)   | Pension liability recognised on the Balance Sheet     | (41.589)        |
| The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows: |   |                 |
| 26.0%  | Active members  | 26.0%           |
| 17.0%  | Deferred Pensioners                                   | 17.0%           |
| 57.0%  | Pensioners  | 57.0%           |
| <b>Unfunded</b>  |   |                 |
| (2.274)  | Present value of defined benefit obligation           | (2.280)         |
| (2.274)  | Pension liability recognised on the Balance Sheet     | (2.280)         |
| (40.509)   | <b>Total</b>  | (43.869)        |

## Assets

The assets allocated to the Employer in the Fund are notional and are assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole (based on data supplied by the Administering Authority) is shown in the disclosures.

The Administering Authority may invest a small proportion of the Fund's investments in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

# NOTES TO THE FINANCIAL STATEMENTS

| 31-Mar-20    |              | Asset allocation |                  | 31-Mar-21    |              |               |
|--------------|--------------|------------------|------------------|--------------|--------------|---------------|
| Quoted       | Unquoted     | Total            |                  | Quoted       | Unquoted     | Total         |
| 44.1%        | 8.6%         | 52.7%            | Equities         | 49.4%        | 7.6%         | 57.0%         |
| 0.8%         | 6.5%         | 7.3%             | Property         | 0.8%         | 5.3%         | 6.1%          |
| 21.8%        | 0.0%         | 21.8%            | Government Bonds | 17.3%        | 0.0%         | 17.3%         |
| 0.0%         | 0.0%         | 0.0%             | Corporate Bonds  | 0.0%         | 0.0%         | 0.0%          |
| 2.0%         | 0.0%         | 2.0%             | Cash             | 1.4%         | 0.0%         | 1.4%          |
| 14.1%        | 2.1%         | 16.2%            | Other            | 15.9%        | 2.3%         | 18.2%         |
| <b>82.8%</b> | <b>17.2%</b> | <b>100.0%</b>    | <b>Total</b>     | <b>84.8%</b> | <b>15.2%</b> | <b>100.0%</b> |

## Movement in the present value of Pension Fund Obligations

| 2019/20<br>£m  | Changes to the present value of the defined benefit obligation     | 2020/21<br>£m  |
|----------------|--|----------------|
|                | <b>Funded</b>  |                |
| 117.640        | Opening defined benefit obligation                                 | 116.965        |
| 2.185          | Current service cost   | 2.178          |
| 2.782          | Interest expense on defined benefit obligation                     | 2.657          |
| 0.363          | Contributions by participants                                      | 0.444          |
| (2.917)        | Actuarial (gains)/losses due to change in financial assumptions    | 20.705         |
| (3.019)        | Actuarial (gains)/losses due to changes in demographic assumptions | 0.000          |
| 3.779          | Actuarial (gains)/losses due to liability experience               | (1.457)        |
| (3.848)        | Net benefits paid out  | (3.403)        |
|                | - Past service cost  | -              |
|                | - Settlements  | -              |
| <b>116.965</b> | <b>Closing defined benefit obligation</b>                          | <b>138.089</b> |
|                | <b>Unfunded</b>  |                |
| 2.570          | Opening defined benefit obligation                                 | 2.274          |
|                | - Current service cost   | -              |
| 0.060          | Interest expense on defined benefit obligation                     | 0.050          |
| (0.017)        | Actuarial (gains)/losses due to change in financial assumptions    | 0.161          |
| (0.040)        | Actuarial (gains)/losses due to changes in demographic assumptions | -              |
| (0.118)        | Actuarial (gains)/losses due to liability experience               | (0.032)        |
| (0.181)        | Net benefits paid out  | (0.173)        |
| <b>2.274</b>   | <b>Closing defined benefit obligation</b>                          | <b>2.280</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

## Movement in the fair value of Pension Fund Assets

| 2019/20<br>£m  | Changes to the fair value of assets    | 2020/21<br>£m |
|--|--|---------------|
|  | <b>Funded</b>                          |               |
| 81.590   | Opening fair value of assets           | 78.730        |
| 1.938  | Interest income on assets              | 1.790         |
| (3.064)  | Remeasurement gains/(losses) on assets | 17.811        |
| 1.751  | Contributions by the employer          | 1.128         |
| 0.363  | Contributions by participants          | 0.444         |
| (3.848)  | Net benefits paid out #                | (3.403)       |
|  | - Settlements                          | -             |
| <b>78.730</b>  | <b>Closing fair value of assets</b>    | <b>96.500</b> |
| # The 'Net benefits paid out' figure includes an allowance for expenses of £0.017m |  |               |
|  | <b>Unfunded</b>                        |               |
| 0.181  | Contributions by the employer          | 0.181         |
| (0.181)  | Net benefits paid out                  | (0.181)       |
|  | <b>- Closing fair value of assets</b>  | <b>-</b>      |

## Actual return on Scheme Assets

| 2019/20<br>£m  | Actual return on assets                 | 2020/21<br>£m |
|----------------|---|---------------|
| 1.938          | Interest income on assets               | 1.790         |
| (3.064)        | Remeasurement gain/(loss) on assets     | 17.811        |
| <b>(1.126)</b> | <b>Actual return / (loss) on assets</b> | <b>19.601</b> |

## Sensitivity Analysis

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2021 and the projected service cost for the year ending 31 March 2022 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same and are summarised on page 79.

Sensitivity of unfunded benefits is not included on materiality grounds.

# NOTES TO THE FINANCIAL STATEMENTS

| <b>Sensitivity analysis for funded LGPS benefits</b>  |                 |                    |                 |
|---|-----------------|--------------------|-----------------|
| <b>Discount rate assumption</b>   |                 |                    |                 |
| <b>Adjustment to discount rate</b>  | <b>+0.1% pa</b> | <b>Base figure</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 135.603         | 138.089            | 140.713         |
| % change in present value of total obligation   | -1.8%           |                    | 1.9%            |
| Projected service cost (£m's)   | 2.957           | 3.055              | 3.156           |
| Approximate % change in projected service cost  | -3.2%           |                    | 3.3%            |
| <b>Rate of general increase in salaries</b>   |                 |                    |                 |
| <b>Adjustment to salary increase rate</b>   | <b>+0.1% pa</b> | <b>Base figure</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 138.365         | 138.089            | 137.813         |
| % change in present value of total obligation   | 0.2%            |                    | -0.2%           |
| Projected service cost (£m's)   | 3.055           | 3.055              | 3.055           |
| Approximate % change in projected service cost  | 0.0%            |                    | 0.0%            |
| <b>Rate of increase to pensions in payment and deferred pensions assumption and rate of revaluation of pension fund accounts</b>                        |                 |                    |                 |
| <b>Adjustment to pension increase rate</b>  | <b>+0.1% pa</b> | <b>Base figure</b> | <b>-0.1% pa</b> |
| Present value of total obligation (£m's)  | 140.437         | 138.089            | 135.880         |
| % change in present value of total obligation   | 1.7%            |                    | -1.6%           |
| Projected service cost (£m's)   | 3.156           | 3.055              | 2.957           |
| Approximate % change in projected service cost  | 3.3%            |                    | -3.2%           |
| <b>Post retirement mortality assumption</b>   |                 |                    |                 |
| <b>Adjustment to mortality age rate assumption #</b>  | <b>-1 year</b>  | <b>Base figure</b> | <b>+1 year</b>  |
| Present value of total obligation (£m's)  | 143.060         | 138.089            | 133.256         |
| % change in present value of total obligation   | 3.0%            |                    | -3.5%           |
| Projected service cost (£m's)   | 3.180           | 3.055              | 2.933           |
| Approximate % change in projected service cost  | 4.1%            |                    | -4.0%           |
| # A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them |                 |                    |                 |

## 34. Contingent Liabilities

### ▪ Browndown Tip

The Council's officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land.

### ▪ Alver Valley Country Park

The Council owns land and has a 999 year lease of other land within the Country Park which was formally a gravel extraction quarry reclaimed as a landfill site. The land is, in parts, known to be filled with both inert material and domestic waste. The Council may have cost liabilities in respect of discharges of gas or contaminated water.

# NOTES TO THE FINANCIAL STATEMENTS

## 35. Contingent Assets

- **Priddys Hard Profit Share**

In 2009/10 the Portsmouth Naval Base Property Trust purchased the Priddys Hard Heritage Area, including the Explosion Museum, from the Council. Under the terms of the agreement the Council would receive a share of profits that may arise from future developments.

# NOTES TO THE FINANCIAL STATEMENTS

## 36. Cash Flow Statement – notes

| 2019/20<br>£'000 | Adjustments to surplus or deficit on the provision of services for non-cash movements            | 2020/21<br>£'000 |
|------------------|--|------------------|
| 4,485            | Depreciation and Impairments   | 4,424            |
| 534              | Impairment and Downward Valuations   | 932              |
| 123              | Amortisation   | 94               |
| 1,262            | Increase/(Decrease) in Creditors   | 12,746           |
| 1,237            | (Increase)/Decrease in Debtors   | (3,146)          |
| 1,157            | Movement in Pension Liability  | 1,794            |
| 5,265            | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 3,136            |
| (562)            | Other non-cash items charged to the net surplus or deficit on the provision of services          | (345)            |
| <b>13,501</b>    | <b>Net cash flow</b>   | <b>19,635</b>    |

| 2019/20<br>£'000 | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 2020/21<br>£'000 |
|------------------|---|------------------|
| (1,078)          | Proceeds from the sale of property plant and equipment, investment property and intangible assets                                   | (903)            |
| (1,363)          | Capital Grants credited to the surplus/deficit on the provision of services   | (1,069)          |
| <b>(2,441)</b>   |   | <b>(1,972)</b>   |

| 2019/20<br>£'000 | Net Cash Flow from Investing Activities   | 2020/21<br>£'000 |
|------------------|---|------------------|
| (7,782)          | Purchase of property, plant and equipment, investment property and intangible assets  | (3,440)          |
| (14,500)         | Purchase of short-term and long-term investments  | (8,000)          |
| 1,114            | Proceeds from the sale of property, plant and equipment, investment property, intangible assets (including deferred capital receipts) | 941              |
| 16,000           | Proceeds from short-term and long-term investments  | 11,500           |
| 1,415            | Other receipts from investing activities  | 2,108            |
| <b>(3,753)</b>   | <b>Net cash outflow from investing activities</b>   | <b>3,109</b>     |

| 2019/20<br>£'000 | Net Cash Flow from Financing Activities   | 2020/21<br>£'000 |
|------------------|---|------------------|
| 20,000           | Cash receipts of short and long-term borrowing  | 12,000           |
|                  | Cash payments for the reduction of outstanding liabilities relating to finance leases |                  |
| (21,550)         | Repayments of short and long-term borrowing   | (19,100)         |
| (364)            | Billing Authorities - Council Tax and NNDR adjustments                                | (5,894)          |
| <b>(1,914)</b>   | <b>Net cash (inflow) / outflow from financing activities</b>                          | <b>(12,994)</b>  |

# NOTES TO THE FINANCIAL STATEMENTS

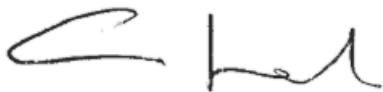
| 2019/20<br>£'000 | The cash flows for operating activities include the following<br>items: | 2020/21<br>£'000      |
|------------------|---|-----------------------|
| 370              | Interest Received   | 257                   |
| <u>(2,024)</u>   | Interest Paid   | <u>(1,951)</u>        |
| <u>(1,654)</u>   | <b>Net cash outflow from Interest and Dividends</b>                     | <u><b>(1,694)</b></u> |

# NOTES TO THE FINANCIAL STATEMENTS

## 37. Certification and authorisation of the Accounts

Statement of Accounts – unaudited draft authorised for issue

Signed



Date 30<sup>th</sup> July 2021

C. WARD

Borough Treasurer, Section 151 officer

Statement of Accounts – audited statement authorised for issue

Signed

Date 17<sup>th</sup> March 2022

C. WARD

Borough Treasurer, Section 151 officer

Statement of Accounts – audited and approved by Policy and Organisation Board

Signed

Date 17<sup>th</sup> March 2022

COUNCILLOR G. BURGESS

Leader of the Council

Statement of Accounts – approved by Policy and Organisation Board and authorised for publication

Signed

Date 17<sup>th</sup> March 2022

C. WARD

Borough Treasurer, Section 151 officer

# SUPPLEMENTARY FINANCIAL STATEMENTS

## HRA INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the Housing Revenue Account Statement

| 2019/20<br>£'000 | HRA INCOME AND EXPENDITURE STATEMENT  | 2020/21<br>£'000 | 2020/21<br>£'000 |
|------------------|---|------------------|------------------|
|                  | <b>EXPENDITURE</b>  |                  |                  |
| 4,514            | Repairs & maintenance   | 5,067            |                  |
| 4,228            | Supervision & management  | 4,310            |                  |
| 304              | Rents, rates, taxes & other charges   | 309              |                  |
| 3,021            | Depreciation, impairment and revaluation losses of non current assets   | 3,038            |                  |
| 42               | Debt management costs   | 45               |                  |
| 91               | Movement in the allowance for bad or doubtful debts   | 55               |                  |
| <b>12,200</b>    | <b>TOTAL EXPENDITURE</b>  |                  | <b>12,824</b>    |
|                  | <b>INCOME</b>   |                  |                  |
| (14,021)         | Dwelling rents  | (14,130)         |                  |
| (301)            | Non dwelling rents  | (309)            |                  |
| (431)            | Charges for services and facilities   | (550)            |                  |
| <b>(14,753)</b>  | <b>TOTAL INCOME</b>   |                  | <b>(14,989)</b>  |
| <b>(2,553)</b>   | <b>NET INCOME OF HRA SERVICES AS INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>                     |                  | <b>(2,165)</b>   |
| 86               | HRA Services' share of Corporate and Democratic Core  |                  | 168              |
| <b>(2,467)</b>   | <b>NET INCOME FOR HRA SERVICES</b>  |                  | <b>(1,997)</b>   |
|                  | <b>HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE WHOLE AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b> |                  |                  |
| 3,341            | (Gain)/Loss on the disposal of HRA non-current assets   |                  | 2,227            |
| 270              | Payments to the Governments Housing Capital Receipts Pool   |                  | 301              |
| 1,852            | Interest payable and similar charges  |                  | 1,839            |
| (49)             | Interest and investment income  |                  | (11)             |
| 244              | Pension interest on net defined benefit liability   |                  | 250              |
| <b>3,191</b>     | <b>(SURPLUS) / DEFICIT FOR THE YEAR ON HRA SERVICES</b>   |                  | <b>2,609</b>     |

# SUPPLEMENTARY FINANCIAL STATEMENTS

| 2019/20<br>£'000 | MOVEMENT ON THE HRA STATEMENT   | 2020/21<br>£'000 | 2020/21<br>£'000 |
|------------------|---|------------------|------------------|
| (992)            | Balance on the HRA at the end of the previous year  |                  | (992)            |
| 3,191            | Surplus / deficit for the year on the HRA Income and Expenditure Account                  | 2,609            |                  |
| (3,077)          | Adjustments between accounting basis and funding basis under regulations (detailed below) | (2,855)          |                  |
| 114              | Net decrease / increase before transfers from / (to) reserves                             |                  | (246)            |
| (114)            | Transfers from / (to) Reserves  |                  | 246              |
| 0                | Increase in year on HRA   |                  | 0                |
| (992)            | Balance on the HRA at the end of the current year   |                  | (992)            |

| ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS |   |                  |                  |
|--|---|------------------|------------------|
| 2019/20<br>£'000   |   | 2020/21<br>£'000 | 2020/21<br>£'000 |
|  | <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>    |                  |                  |
| (3,341)  | Gain/(Loss) on the disposal of HRA Non-Current Assets   | (2,227)          |                  |
| (270)  | Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool          | (301)            |                  |
| 861  | Capital Expenditure funded by the HRA   | 196              |                  |
| (1)  | Net charges to Accumulated Absences Account   | (39)             |                  |
| (834)  | Net charges made for retirement benefits in accordance with IAS19   | (843)            |                  |
| 3,018  | Depreciation transfer to Major Repairs Reserve  | 3,027            |                  |
| (3,021)  | Depreciation transfer from Capital Adjustment Account   | (3,038)          |                  |
| (3,588)  |   |                  | (3,225)          |
|  | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>  |                  |                  |
| 511  | Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners | 370              |                  |
| 511  |   |                  | 370              |
| (3,077)  | <b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>                               |                  | <b>(2,855)</b>   |

# SUPPLEMENTARY FINANCIAL STATEMENTS

## NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

### 1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. It includes the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year.

### 2. Value of Housing Revenue Account Property

This analysis shows the net value and number of types of dwelling within the HRA. Council dwellings are valued at their Economic Use Value for Social Housing.

| 31-Mar-20                 |                |                            | 31-Mar-21    |                |
|---------------------------|----------------|----------------------------|--------------|----------------|
| Number                    | Value<br>£'000 |                            | Number       | Value<br>£'000 |
| <b>Operational Assets</b> |                |                            |              |                |
| 2,929                     | 141,539        | Standard Dwellings         | 2,922        | 146,294        |
| 182                       | 5,430          | Sheltered Housing          | 182          | 5,666          |
| 504                       | 1,090          | Garages and Parking Spaces | 504          | 1,163          |
| 5                         | 51             | Operational Property       | 5            | 43             |
| 1                         | 33             | Community Asset            | 1            | 33             |
| <b>3,621</b>              | <b>148,143</b> |                            | <b>3,614</b> | <b>153,199</b> |

The HRA asset base is valued annually – the 2020/21 stock valuation has been carried out by Savills (UK) Ltd on behalf of the Council and has been guided by the 'Stock Valuation for Resource Accounting: Guidance for Valuers – 2016' published by the Department for Communities and Local Government in November 2016. The housing stock for 2020/21 has been valued at 1 April 2020.

The table below shows the vacant possession value of dwellings within the HRA, this being the value as if they were sold on the open market with vacant possession and free from any legal or regulatory tenancies. The difference between the vacant possession value and the balance sheet value represents the economic cost of providing Council Housing at less than market rents.

| 31-Mar-20<br>£'000 |                        | 31-Mar-21<br>£'000 |
|--------------------|------------------------|--------------------|
| 444,272            | Dwellings              | 459,321            |
| 1,090              | Other Land & Buildings | 1,163              |
| <b>445,362</b>     |                        | <b>460,484</b>     |

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 3. Housing Stock

The Council's housing stock, including shared ownership properties, was made up as follows:

| 31-Mar-20                       | 31-Mar-21    |
|---------------------------------|--------------|
| <b>Numbers</b>                  |              |
| 1,252 Houses                    | 1,248        |
| 428 Bungalows                   | 428          |
| 1,431 Flats                     | 1,428        |
| <b>3,111</b>                    | <b>3,104</b> |
| <b>Analysis of bedroom type</b> |              |
| 1,537 1 bedroom                 | 1,534        |
| 545 2 bedroom                   | 544          |
| 945 3 bedroom                   | 941          |
| 84 4 or more bedrooms           | 85           |
| <b>3,111</b>                    | <b>3,104</b> |
| <b>Analysis of stock by age</b> |              |
| 255 Pre 1945                    | 252          |
| 1,274 1945 - 1964               | 1,270        |
| 619 1965 - 1974                 | 619          |
| 963 1974 onwards                | 963          |
| <b>3,111</b>                    | <b>3,104</b> |

## 4. Major Repairs Reserve

The major repairs reserve is restricted to being applied towards new capital expenditure, the repayment of HRA debt and meeting liabilities under credit arrangements.

| 2019/20<br>£'000             | 2020/21<br>£'000 |
|------------------------------|------------------|
| 0 Balance at 1 April         | 0                |
| 3,018 HRA Depreciation       | 3,027            |
| (3,018) HRA Capital Financed | (2,216)          |
| <b>0 Balance at 31 March</b> | <b>811</b>       |

## 5. Housing Repairs

| 2019/20<br>£'000              | 2020/21<br>£'000 |
|-------------------------------|------------------|
| 7,835 Expenditure on Repairs  | 7,292            |
| 3,929 Of which planned        | 3,303            |
| 50.1% % of Planned / Response | 45.3%            |

£2.216 million of the 2020/21 expenditure (£3.322 million in 2019/20) on repairs was capital expenditure. The main categories of expenditure were over cladding, disabled adaptations, sheltered scheme improvements, kitchens, bathrooms and central heating installations.

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 6. Capital Expenditure

| 2019/20<br>£'000                                     | 2020/21<br>£'000 |
|--|------------------|
| 3,322 HRA Properties - capital repairs & maintenance | 2,216            |
| 1,701 Purchase of Properties                         | 538              |
| <b>5,023</b>   | <b>2,754</b>     |

## 7. Capital Financing

| 2019/20<br>£'000                | 2020/21<br>£'000 |
|---------------------------------|------------------|
| 3,018 Major Repairs Reserve     | 2,216            |
| 861 Revenue Contribution        | 0                |
| 1,144 Capital Receipts Reserves | 538              |
| 0 Revenue Reserves              | 0                |
| <b>5,023</b>                    | <b>2,754</b>     |

## 8. Capital Receipts

Capital receipts from the sale of housing revenue account property in the year were as follows:

| 2019/20<br>£'000         | 2020/21<br>£'000 |
|--------------------------|------------------|
| 1,078 Right to Buy sales | 537              |
| <b>1,078</b>             | <b>537</b>       |

## 9. Depreciation and Impairments of Assets

Depreciation charges for Council Dwellings are shown below.

There was no revaluation loss or impairment charge to the HRA in respect of reductions in the value the Council's housing stock which could not be offset against a Revaluation Reserve balance in either 2019/20 or 2020/21.

| 2019/20<br>£'000                        | 2020/21<br>£'000 |
|---|------------------|
| 3,018 Depreciation of Council Dwellings | 3,027            |
| <b>3,018</b>                            | <b>3,027</b>     |

# SUPPLEMENTARY FINANCIAL STATEMENTS

## 10. Rent Arrears

| 2019/20<br>£'000                         | 2020/21<br>£'000 |
|--|------------------|
| 310 Current Tenants                      | 302              |
| 125 Former Tenants                       | 155              |
| 7 Garages                                | 10               |
| <b>442</b> Total Rent Arrears            | <b>467</b>       |
| (14,223) Gross Rent Income               | (14,406)         |
| 3.1% Arrears as a % of Gross Rent Income | -3.2%            |

The bad debt provision for all HRA debts at 31 March 2021 is £464,100 (£408,700 at 31 March 2020)

## 11. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under Regulations to the HRA Balance with no net residual cost to the HRA.

| 2019/20<br>£'000  | 2020/21<br>£'000 |
|---|------------------|
| <b>Net Cost of Services</b>   |                  |
| 79 Current service costs and past service costs                                     | 223              |
| <b>Surplus or (Deficit) for the year on HRA Services</b>                            |                  |
| 244 Pension interest on net defined benefit liability                               | 250              |
| <b>Statement of Movement on the HRA Balance</b>                                     |                  |
| (834) Reversal of net charges made for retirement benefits in accordance with IAS19 | (843)            |
| <b>Actual amount charged against Rents</b>  |                  |
| 511 Employers' contributions payable to scheme                                      | 370              |

# SUPPLEMENTARY FINANCIAL STATEMENTS

| 2019/20<br>£'000  | COLLECTION FUND |                   |                 |
|---|-----------------|-------------------|-----------------|
|   | £'000           | -----2020/21----- |                 |
|   | Business Rates  | Council Tax       | £'000<br>Total  |
| <b>INCOME</b>   |                 |                   |                 |
| (46,928) Council Tax  | -               | (48,613)          | (48,613)        |
| Council Tax Benefits - Discretionary Hardship Payments                              | -               | (481)             | (481)           |
| (17,061) Income collectable from Business Ratepayers                                | (9,464)         | -                 | (9,464)         |
| <b>(63,989)</b>   | <b>(9,464)</b>  | <b>(49,094)</b>   | <b>(58,558)</b> |
| <b>EXPENDITURE</b>  |                 |                   |                 |
| <b>Apportionment of Previous Year Estimated Collection Fund Surplus / (Deficit)</b> |                 |                   |                 |
| (73) Central Government   | 148             | -                 | 148             |
| (8) Gosport Borough Council   | 118             | (23)              | 95              |
| 261 Hampshire County Council  | 27              | (126)             | (99)            |
| - Hampshire Police and Crime Commissioners  | -               | (21)              | (21)            |
| 14 Hampshire Fire and Rescue Authority  | 3               | (7)               | (4)             |
| <b>Precepts, Shares and Demands</b>   |                 |                   |                 |
| 7,740 Central Government  | 8,134           | -                 | 8,134           |
| 12,277 Gosport Borough Council  | 6,507           | 6,239             | 12,746          |
| 34,734 Hampshire County Council   | 1,464           | 34,780            | 36,244          |
| 5,431 Hampshire Police and Crime Commissioners                                      | -               | 5,718             | 5,718           |
| 1,980 Hampshire Fire and Rescue Authority   | 163             | 1,867             | 2,030           |
| <b>62,356</b>   | <b>16,564</b>   | <b>48,427</b>     | <b>64,991</b>   |
| <b>Charges to the Collection Fund</b>   |                 |                   |                 |
| 311 Write off of uncollectable amounts  | 36              | 721               | 757             |
| 268 Increase / (Decrease) in Bad Debt Provisions                                    | 514             | 134               | 648             |
| 1 Increase / (Decrease) in Provision for Appeals                                    | (1,010)         | -                 | (1,010)         |
| 77 Cost of collection   | 75              | -                 | 75              |
| 52 Transitional protection payments   | 869             | -                 | 869             |
| <b>709</b>  | <b>484</b>      | <b>855</b>        | <b>1,339</b>    |
| <b>63,065 TOTAL EXPENDITURE</b>   | <b>17,048</b>   | <b>49,282</b>     | <b>66,330</b>   |
| <b>(924) (Surplus) / Deficit arising during the year</b>                            | <b>7,584</b>    | <b>188</b>        | <b>7,772</b>    |
| <b>MOVEMENTS ON THE COLLECTION FUND</b>   |                 |                   |                 |
| (215) (Surplus) / Deficit at 1 April  | (1,220)         | 122               | (1,098)         |
| (883) (Surplus) / Deficit for the year  | 7,584           | 188               | 7,772           |
| <b>(1,098) (Surplus) / Deficit at 31 March</b>                                      | <b>6,364</b>    | <b>310</b>        | <b>6,674</b>    |

# SUPPLEMENTARY FINANCIAL STATEMENTS

## NOTES TO THE COLLECTION FUND

### 1. The Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and businesses and distribution to local authorities and the Government of council tax and non-domestic rates

### 2. Council Tax

Council Tax income is calculated by estimating the amount of income required from the Collection Fund for Hampshire County Council, Hampshire Fire and Rescue Authority, the Police and Crime Commissioners for Hampshire and Gosport Borough Council. This is then divided by the tax base and multiplied by the ratio shown below to give the council tax for each band of property.

The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, calculated as follows:

| Band     | Estimated Number of Taxable Properties after Discounts | Ratio Equivalent | Band D Dwellings |
|----------|--|------------------|------------------|
| Disabled | 6.50   | 5/9              | 3.6              |
| A        | 3,868.70   | 6/9              | 2,579.1          |
| B        | 10,342.70  | 7/9              | 8,044.3          |
| C        | 7,646.00   | 8/9              | 6,796.4          |
| D        | 4,552.00   | 9/9              | 4,552.0          |
| E        | 1,792.30   | 11/9             | 2,190.6          |
| F        | 1,309.40   | 13/9             | 1,891.4          |
| G        | 293.00   | 15/9             | 488.3            |
| H        | 22.30  | 18/9             | 44.5             |
|          |  |                  | 26,590.2         |
|          | Plus MOD contributions in lieu                         |                  | 781.3            |
|          | Less allowance for losses on collection                |                  | (332.4)          |
|          | <b>Tax Base for 2020/21</b>                            |                  | <b>27,039.1</b>  |
|          | Tax base for 2019/20                                   |                  | 26,956.2         |

The Band D Council Tax for a Gosport property in 2020/21 was £230.75 (£225.75 in 2019/20)

# SUPPLEMENTARY FINANCIAL STATEMENTS

## Distribution of the Council Tax surplus or deficit

Council tax is set before the start of financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about collectability, including variations in the tax base, during the year cause a surplus or deficit to arise on the fund at year end.

For Council Tax, the year-end surplus or deficit on the Collection Fund is distributed between billing and precepting authorities on the basis of estimates of the year-end balance made by the preceding 15 January.

| Estimated<br>2019/20<br>(surplus) /<br>deficit<br>(shared with<br>preceptors<br>2020/21) | Actual<br>(surplus) /<br>deficit<br>31- Mar -20 | Council Tax                              | Estimated<br>2020/21<br>(surplus) /<br>deficit<br>(shared with<br>preceptors<br>2021/22 and<br>future years) | Actual<br>(surplus) /<br>deficit<br>31- Mar -21 |
|--|---|--|--|---|
| £'000  | £'000   |  | £'000  | £'000   |
| 126  | 87  | Hampshire County Council                 | 134  | 222   |
| 7  | 5   | Hampshire Fire & Rescue Authority        | 7  | 12  |
| 21   | 14  | Hampshire Police and Crime Commissioners | 22   | 37  |
| 23   | 16  | Gosport Borough Council                  | 24   | 39  |
| <b>177</b>   | <b>122</b>                                      |  | <b>187</b>   | <b>310</b>                                      |

The difference between the estimated (surplus) / deficit for 2020/21 and the actual (surplus) / deficit will be shared with preceptors between 2021/22 and 2023/24.

### 3. Non-Domestic Rates (NDR)

From 1 April 2013, the national system of redistributing centrally pooled business rates to Local Authorities was replaced by a new system of Business Rates Retention whereby a proportion of the business rates collected is retained locally by billing and precepting authorities and the balance is paid over to central government.

There is, therefore, the potential reward of additional income from an enhanced business rates base in the Borough. However, there is also the increased financial risk due to non-collection and the volatility of the NDR tax base – particularly due to factors outside of the Council's control such as successful rating appeals to the Valuation Office which may be backdated.

Non-Domestic or business rates are levied on businesses by reference to their rateable value multiplied by the NDR multiplier for the year which is set nationally by central government. The government has undertaken a Business Rates revaluation exercise that came into effect on the 1st April 2017, at revaluation all properties are given a new rateable value and the NDR multiplier is revised.

The standard non-domestic rating multiplier for the year was 51.2p pence (50.43p in 2019/20). The total non-domestic rateable value at the year-end was £43,423,252 (£44,551,493 in 2019/20).

# SUPPLEMENTARY FINANCIAL STATEMENTS

Business Rates collected are then apportioned by shares to the following bodies as set out in legislation.

|                                     |     |
|-------------------------------------|-----|
| Central Government                  | 50% |
| Gosport Borough Council             | 40% |
| Hampshire County Council            | 9%  |
| Hampshire Fire and Rescue Authority | 1%  |

## Distribution of the Non Domestic Rates surplus or deficit

Estimates for business rates to be collected in the following financial year are required to be made in the January before the year starts. As with Council Tax, there will be differences between the estimated and actual business rates collected leading to a Non-Domestic Rates surplus or deficit position within the Collection Fund at the year end. The year-end surplus or deficit on the Collection Fund is distributed between billing authority, precepting authorities and central government on the basis of estimates of the year-end balance made by the preceding 31 January.

This is then apportioned to the relevant precepting authorities, including the government, in the proportions set out above.

| Estimated<br>2019/20<br>(surplus) /<br>deficit<br>(shared with<br>preceptors<br>2020/21) | Actual<br>(surplus) /<br>deficit<br>31- Mar -20 | Business Rates                    | Estimated<br>2020/21<br>(surplus) /<br>deficit<br>(shared with<br>preceptors<br>2021/22 and<br>future years) | Actual<br>(surplus) /<br>deficit<br>31- Mar -21 |
|--|---|-----------------------------------|--|---|
| £'000  | £'000   |                                   | £'000  | £'000   |
| (148)  | (610)   | Government                        | 3,055  | 3,182   |
| (27)   | (110)   | Hampshire County Council          | 550  | 573   |
| (3)  | (12)  | Hampshire Fire & Rescue Authority | 61   | 64  |
| (118)  | (488)   | Gosport Borough Council           | 2,444  | 2,545   |
| <b>(296)</b>   | <b>(1,220)</b>                                  |                                   | <b>6,110</b>   | <b>6,364</b>                                    |

The deficit at 31<sup>st</sup> March 2021 includes an exceptional balance of £6.403 million which relates to business rates waived and not collected due to government support for businesses during the Covid-19 pandemic by introducing an expanded retail discount and nursery scheme. Local authorities will be fully compensated via Covid-19 S31 business rate relief grant for their lost business rate income and this grant will fund the exceptional deficit in 2021/22.

The difference between the estimated (surplus) / deficit for 2020/21 and the actual (surplus) / deficit will be shared with preceptors and central government between 2021/22 and 2023/24.

#### 4. Accounting for the Collection Fund balance

The Code requires that the Council Tax and National Domestic Rating Income included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than the amount included under regulations comprising for

- Council Tax - the approved annual precept plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 15 January

# SUPPLEMENTARY FINANCIAL STATEMENTS

- National Non-Domestic Rates - the relevant share of the estimated business rates to be collected as included within Council's approved budget plus or minus the estimate of the Collection Fund surplus or deficit made at the previous 31 January.

The difference between the accrued amount and the amount required to be included under regulations is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

The Code recognises that the collection of Council Tax and National Non-Domestic Rates is in substance an agency arrangement with the cash collected by the billing authority belonging proportionately to the billing authority, major preceptors and bodies receiving a share of the NDR. There is therefore a debtor / creditor position between the billing authority, major preceptors and bodies receiving a share of the Council Tax and NDR at the year end and this position is recognised in their respective balance sheets.

The following Collection Fund balances relating to Gosport Borough Council are included in the Council's balance sheet.

| -----31-Mar-20-----                 |              |                | -----31-Mar-21----- |              |              |
|-------------------------------------|--------------|----------------|---------------------|--------------|--------------|
| £'000                               | £'000        | £'000          | £'000               | £'000        | £'000        |
| Business Rates                      | Council Tax  | Total          | Business Rates      | Council Tax  | Total        |
| <b><u>Debtors / (Creditors)</u></b> |              |                |                     |              |              |
| -                                   | 2,017        | 2,017          | -                   | 2,614        | 2,614        |
| -                                   | 108          | 108            | -                   | 137          | 137          |
| -                                   | 331          | 331            | -                   | 438          | 438          |
| 192                                 | 440          | 632            | 231                 | 552          | 783          |
| (390)                               | -            | (390)          | 384                 | -            | 384          |
| (43)                                | -            | (43)           | 43                  | -            | 43           |
| (64)                                | (94)         | (158)          | (99)                | (134)        | (233)        |
| (2,170)                             | -            | (2,170)        | 2,131               | -            | 2,131        |
| <b><u>Provisions</u></b>            |              |                |                     |              |              |
| (1,376)                             | -            | (1,376)        | (972)               | -            | (972)        |
| <b><u>Unusable Reserves</u></b>     |              |                |                     |              |              |
| (488)                               | 16           | (472)          | 2,546               | 39           | 2,585        |
| <b>(4,339)</b>                      | <b>2,818</b> | <b>(1,521)</b> | <b>4,264</b>        | <b>3,646</b> | <b>7,910</b> |

*The Council's Unusable Reserves figures above exclude the Enterprise Zone £1,933 credit (£4,500 credit in 2019/20)*

# ANNUAL GOVERNANCE STATEMENT

## GOSPORT BOROUGH COUNCIL

### ANNUAL GOVERNANCE STATEMENT 2020/21

#### **Scope of responsibility**

Gosport Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for; and is used economically, efficiently and effectively. Gosport Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Gosport Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

This statement explains how Gosport Borough Council has complied with the Code and also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015.

#### **The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Gosport Borough Council's policies, aims and objectives to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

#### **The governance framework**

Gosport Borough Council's Governance Framework derives from the updated 2016 publication 'Delivering Good Governance in Local Government'. The Framework identified 7 principles that should underpin the governance arrangements in a Local Authority.

# ANNUAL GOVERNANCE STATEMENT



Each principle will be outlined below and how the Council meets them:

## **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

### *Constitution*

The Constitution sets out how the Borough Council operates, the roles and responsibilities of officers and members, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The constitution is managed by the Borough Solicitor/Monitoring Officer and was subject to a review to update factual elements such as job titles and changes in senior management during 2019/20. The Constitution is often a working document to enable changes made in relation to boards and Council decisions.

### *Key Statutory officers*

**Head of Paid Service** - Section 4 of the Local Government and Housing Act 1989 requires a Local Authority appoint a Head of Paid Service and to provide that officer with such staff, accommodation and other resources as are, in his opinion, sufficient to allow his duties under this section to be performed. For Gosport Borough Council this officer is David Williams, Chief Executive.

**Monitoring Officer** - An officer, appointed under section 5 of the Local Government and Housing Act 1989, who is required to report to the Council where it appears to them the authority has done, or is about to do, anything which would contravene the law or which would constitute maladministration. For Gosport Borough Council this is the Borough Solicitor, Paul Grant.

# ANNUAL GOVERNANCE STATEMENT

S151 Officer - As required with the Local Government Act 1972 s151 every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. For Gosport Borough Council, this responsibility is that of the Borough Treasurer, Chris Ward.

## *Councillors*

Local government is accountable and transparent in a number of ways. Elected local authority members are democratically accountable to their local area and this gives them a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions.

## **Councillor Board Structure**

As the Council chose to adopt 'alternative arrangements' following publication of the Local Government Act 2000, a Board/Committee structure is in place and each party is represented proportionally on each Board and Committee according to the number of seats held. Consequently the Council enjoys a high level of transparency when it comes to decision making and any Member of the Council is afforded the right to sit on the Boards if they are nominated for such a position at the commencement of the Municipal Year.

All decision making reports are structured and the contents demonstrate all relevant information in order to reach an informed decision.

A report on Governance was taken to Council in May 2016 to review the arrangements for the discharge of the Council's Functions and proposed changes to the Boards and Committees. The composition remains unchanged for 2020/21:

## **Composition of Boards**

The following is the composition of the Boards:-

| Board/Sub Board                    | Number of Members |
|------------------------------------|-------------------|
| Policy and Organisation Board      | 12                |
| Community Board                    | 12                |
| Economic Development Board         | 12                |
| Regulatory Board                   | 12                |
| Standards and Governance Committee | 12                |
| Housing Board                      | 13                |
| Climate Change Board               | 12                |

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making:

### ***Council***

***Policy and Organisation Board***

***Community Board***

***Economic Development Board***

***Regulatory Board (Licensing Sub-Boards)***

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As the Regulatory Board deals only with planning applications and the Licensing Sub-Boards with Licensing matters the law does not allow their work to be scrutinised by other Councillors. This is because the decisions made by these Boards are already subject to an appeal process, either through an independent inspector or the courts.

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance. Additionally, the Monitoring Officer is enabled to convene an Initial Filtering Panel with three Councillors of the Standards and Governance Committee and or the Council's Independent Person to determine allegations of failure to comply with the Council's Code of Conduct, in accordance with the Council's arrangements for dealing with such allegations.

## *Officers of the Council*

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A protocol contained in the Constitution governs the relationship between officers and members of the Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's Constitution.

The Council Management Team (CMT), consisting of Chief Executive, Assistant Chief Executive and Monitoring Officer, Head of Finance, Head of Benefits Procurement and Insurance, Head of Streetscene, Head of Housing, Chief Internal Auditor and Head of IT, meets periodically to develop policy and strategic issues commensurate with the Council's strategic priorities. Members of CMT meet collectively and individually with the Leader of the Council and other leading members of the Administration to consider new policies and strategies as well as managing, monitoring and reviewing existing policy and strategy. The Leader holds frequent meetings with the Chief Executive Officer, Assistant Chief Executive and Monitoring Officer to review progress in achieving the Council's strategic priorities for action, performance management and forward planning for major issues and projects.

Information that would be of benefit to other members of the Council staff is disseminated through regular meetings between Line Managers and the relevant Senior Manager, and then through to the rest of the Council via periodic section meetings.

Information on policy, priorities, procedures and current issues is also disseminated to all staff through the Chief Executive (email) and staffroom (email) communications at least monthly.

The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These include:

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Whistleblowing Policy

It is the shared responsibility of the Chief Officers [primarily the Chief Executive, Assistant to the Chief Executive, Monitoring Officer and Borough Treasurer] and the Human Resource section to ensure compliance with established policies, procedures, laws and regulations. Issues of conduct and governance must often be considered by the Standards and Governance Committee, in which case a report and recommendations are prepared by the Monitoring Officer. All posts within the authority

# ANNUAL GOVERNANCE STATEMENT

have a detailed job specification and training needs are identified on an on-going basis and also through the Personal Development Scheme.

## *Boundary Review*

The Local Government Boundary Commission for England (LGBCE) informed the Council that they would be undertaking a statutory review of the electoral arrangements with regard to the Electoral Ward boundaries at an informal meeting with The Leader of the Council, the Chief Executive and the Electoral Registration Officer in January 2020.

The LGBCE stated they are 'conducting a review of Gosport Borough Council ('the Council') as the value of each vote in borough elections varies depending on where you live in Gosport. Some councillors currently represent many more or fewer voters than others. This is 'electoral inequality'. Our aim is to create 'electoral equality', where votes are as equal as possible, ideally within 10% of being exactly equal.'

This electoral review is being carried out to ensure that:

- The wards in Gosport are in the best possible places to help the Council carry out its responsibilities effectively.
- The number of voters represented by each councillor is approximately the same across the borough.

Following the review the LGBCE, the following recommendations were made

- Gosport should be represented by 28 councillors, six fewer than there are now.
- Gosport should have 14 wards, three fewer than there are now.
- The boundaries of all wards should change except Lee East and Lee West wards.

The recommendations will be consulted on until 30<sup>th</sup> August 2021. As such, a further update will be included within the 2021/22 Annual Governance Statement.

## **B. Ensuring openness and comprehensive stakeholder engagement**

### *Complaints*

Gosport Council has a clear and publicised 3 stage complaints procedure in place to allow the public an opportunity to raise an issue where they feel the Council has not performed the service it should have. In addition, should a complaint not be resolved within the process, the option to raise the issue with the Local Government Ombudsman is also advertised. GBC report statistical information on complaints relating to the Ombudsman.

### *Partnerships*

Partnerships allow the Council to work with organisations, other local authorities and groups to aid in the delivery of the Council's services and objectives. The Borough has strong links with Hampshire County Council in relation to education within the city and highways management. In addition GBC also has formal partnership agreements with Fareham Borough Council in relation to Environmental Health, Licensing and Building Control Engagement. In addition, Gosport has partnerships with Portsmouth City Council in relation to the sharing of senior management and services such as HR, Communications and Internal Audit.

Gosport also works with local organisations such as Citizens Advice and Gosport Voluntary Action to ensure further engagement with the local area.

### *Consultations*

The Council frequently consults residents both where there is a legal duty to consult and also on matters of particular interest including, but not limited to planned developments within the Borough.

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The Council makes decisions at public meetings of its Boards and Committee. Members of the public are able to address the Council's Boards and Committees using the Council's process for public questions and deputations available in the Council's Constitution and on the Council's website. During 2020/21 all Council meetings were held remotely due to the Covid 19 Pandemic and therefore the meetings were live streamed on the internet to ensure the meetings were still deemed as public. Following Government guidance, the meetings of the Council's board will resume being held in public for 2021/22.

The Council complies with the Freedom of Information Act (2000) and requests can be submitted electronically or in person to be considered by the service unit concerned within 20 working days.

- **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits & D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

### *Financial Planning*

Over the past 10 years (since 2011/12), Central Government funding to Councils has reduced by over 40% in real terms. The Council has a strong track record of being able to live within its means, make savings and secure financial resilience

The medium term financial strategy is designed to meet the following criteria "In year" expenditure matches "in year" income over the medium term whilst providing sustainable high quality public services, improving the overall prosperity of residents and businesses and ensuring adequate financial resilience.

Over the next 3 years, the Council has a forecast budget deficit to remedy amounting to £2.1m (+/- £0.5m arising from future uncertainty). This compares to a forecast deficit of £1.7m estimated in February 2020 and reflects the following: (i) The challenges posed by the Covid-19 pandemic and the lack of opportunity to fully develop and implement a savings programme consistent with the forecast savings requirement of £0.570m for 2021/22 as set out in the Budget Report in February 2020 (j) The rolling 3 year forecast moving on a further year to now incorporate 2024/25

The Administration's strategy to meet this challenge is a multi-faceted approach to maintain a stable financial position and undertake targeted investment in services to improve sustainability and safeguard resilience. These were outlined as part of the agreed Full Council budget for 2021/22 in February 2021.

### *Financial Management Code*

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22.

The Council will undertake a rapid review against the new FM Code in order to identify any areas for development.

### *Climate change*

In 2020 Gosport Borough Council voted to implement a Climate Change Board. This board has the responsibility to formulate policies and initiatives in relation to climate change.

# ANNUAL GOVERNANCE STATEMENT

## *Council Plan*

The Council's plan on a page sets out Gosport Borough Council's mission and core values (ambitious, supportive, collaborative, adaptable and efficient). The Plan also identifies the Council's strategic priorities (raise aspirations, enhance the environment, develop the economy, empower our residents and deliver effective services which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context. The Council continues to keep its plan relevant and up to date the plan has been developed through engagement with both the Council Management Team and officers of the Authority.

The Council also have a Local Plan 2011-2029. The Local Plan sets out the Council's proposals for the development and use of land from 2011 – 2029, and forms the basis for dealing with planning applications. The Local Plan has gone through several stages to adoption and was supported by an evidence base and a Sustainability Appraisal. In accordance with Government guidance the Council is required to keep its Local Plan up to date. The Council has now started to prepare a revised Local Plan to cover the period to 2036.

The Council's Mission statement:

**“Build on our strengths to empower and support our communications and ensure the potential of the borough and all of our residents is achieved”**

The Council has continued to evolve its approach to performance management by promoting a transparent and open performance culture amongst Section Heads, who are responsible for managing performance on a day-to-day basis. Whilst in transition, key outcome based performance management measurements have been retained whilst new and relevant measures are being further developed. Section Heads are accountable for performance to the Council's Management Team and to elected members.

- **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

## *Recruitment & training*

The Council has a robust recruitment process in place which includes tailored applications and interviews with the view to ensuring the right candidates are selected for the roles advertised. The Council also has an induction process linked to essential training and mandatory policies which must be read and understood by all new starters.

Gosport Borough Council also has access to the Portsmouth Learning Gateway (PLG) which has a host of Local Authority specific training courses for all staff to access as and when required.

The Council also utilises its partnership with Portsmouth City Council to recruit and employ employee individuals on the apprenticeship scheme, utilising the Government funded Apprenticeship Levy. Apprenticeships provide an opportunity for us to develop our workforce and provide employment and training opportunities for people in our community. As at March 2021 GBC has 1 apprentice and 2 staff studying apprenticeships as part of their existing role.

The Council plans to continue to recruit fresh talent into the workplace as well as looking at career pathway opportunities for existing staff.

A designated Members' Portal covers a wide range of useful materials and guidance. This is available for Members to view on the intranet system. This resource enables the Council to better provide for Members the opportunity to locate important stored information and data. Within the Portal is the Members' Information Pack which provides Members with detailed corporate, strategic and financial information as well as relevant policies and other useful information such as floor plans and

# ANNUAL GOVERNANCE STATEMENT

complaints guidance. Note – access to this is impacted by Covid-19 as members need access to the Town Hall or via a GBC laptop.

New Members are provided with an induction training programme to prepare them for their new role, commencing with an induction evening hosted by the Chief Executive, Assistant Chief Executive, Borough Solicitor and Borough Treasurer that covers topics such as the role of the councillor, finance, standards, code of conduct and major projects. Briefings such as those on planning and licensing issues are held throughout the year to correlate with the Board cycle.

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and media and image) to need-to-know subjects (e.g. Code of Conduct, planning local government finance) detailed in the 'Training Opportunities for Members' booklet within the Members Information Pack.

- **F. Managing risks and performance through robust internal control and strong public financial management & G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability**

## *Risk Management*

The Council is committed to embedding a culture of risk awareness within everyday activities such that formal processes and unnecessary documentation can be minimised, but that risk management remains an effective part of the governance framework.

GBC approved a new risk management policy in 2020 which aims to embed risk management throughout the Authority with all sections taking ownership of their risks. Periodically, section risk registers are reviewed and analysed by a Risk Management Group to determine the risks which will form the Council's strategic risk register. The Risk Management Group consists of the Assistant Chief Executive, Borough Solicitor, Chief Internal Auditor and Senior Auditor.

The Corporate Governance Group, consisting of the Chief Executive, Assistant Chief Executive, Monitoring Officer and Chief Internal Auditor, deep dive on the corporate risk register to challenge the risk level, mitigation and any subsequent actions on a quarterly basis.

## *Value for money*

The Council has put significant focus on improving procurement processes within the organisation which has included the implementation of a new procurement electronic system. In addition, the Council is currently having its Contract Regulations reviewed by a specialist at CIPFA to ensure they are robust in ensuring compliance with relevant procurement legislation. A recent internal audit has highlighted areas for improvement in relation to the adherence to the Council's procurement regulations and suitable actions have been agreed to address this issue.

External Auditors provided the Council with an unqualified opinion in 2019/20 with regards to Value for Money following their review of the financial accounts

## *Financial management*

The Council maintains an objective and professional relationship with their appointed external auditors (Ernst & Young LLP) and statutory inspectors, as evidenced by the various reports being presented to the Standards and Governance Committee (available on the Council's website). The Council uses the evidence and recommendations contained in those reviews to support performance improvement and risk management.

The Financial Procedure Rules and Contract Procedure Rules are under constant review and these are, incorporated in the Council's Constitution

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## *Data Management*

The organisation is a registered data controller with the Information Commissioners Officers and has both a Senior Information Risk Owner (SIRO) and a Data Protection Officer (DPO). Within 2020, a Data Protection Group has been setup, including the aforementioned officers, to tighten controls on data protection and ensure continued compliance with the General Data Protection Regulation (GDPR) and Freedom of Information Act. All staff are required to sign acceptance of the Council's information governance policy and data protection forms part of the induction process for all employees.

Transparency agenda. On an annual basis, from 2021, the SIRO will report to the Standards and Governance Committee, information on the Council's effectiveness regarding information governance including any data breaches which may have occurred.

## **Review of effectiveness**

Gosport Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

1. The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes 'agreed actions' for any issues/risks that have been identified. These issues/risks are graded as Critical, High, Medium or Low. All critical risk issues/risks are followed up within 3 months of the final report being issued. If a high risk issue is raised, the audit will be followed up in the next financial year.
3. An Internal Audit Annual Report is taken to the Standards & Governance Committee (as per the Accounts and Audit Regulations 2015) and this provides the overall opinion on the Council's internal control environment.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2020/21.

The Council entered into an arrangement with Portsmouth City Council for shared Senior Management primarily as a means to address the future financial challenges faced by the Council. The roles and responsibilities of the shared posts will continue to include those relating to the Governance of this Council in accordance to the policies and procedures of this Council.

The shared management arrangement has brought costs savings (through the reduction in the cost of Senior Management) and improved operational resilience with the ability to call on resources and expertise from Portsmouth City Council which otherwise were not readily available.

The Senior Management Team have been charged by the Administration to review the effectiveness of all of the Council's activities on a continuous basis. Service reviews are ongoing across the

# ANNUAL GOVERNANCE STATEMENT

Council focused on ensuring that customer demands are met with the changing landscape and working practices enforced by the global pandemic. Ensuring processes are effective, and that services have adequate capacity and resilience. These are especially prevalent since the Covid-19 pandemic which has required services to work remotely and flexibly to meet the current demands.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Procedure Rules. The Council has designated the Borough Treasurer as Chief Finance Officer complying with the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requiring the Chief Finance Officer to report directly to the Chief Executive and to be a member of the 'Management Team'.

The Standards and Governance Committee promotes, monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for audit, risk and compliance issues to be considered. All Governance reviews and the results of audits are considered by the Standards and Governance Committee

## Annual Audit Opinion

During 2020/21, 19 audit reviews & 6 full follow up reviews were undertaken and completed. The number of audits completed was affected by the Coronavirus pandemic with the plan being reduced by 1 audit overall but with several changes to accommodate work on certifying and reviewing grants. 72% of the audits undertaken achieved a level of 'Full Assurance' or 'Reasonable Assurance' and 24% of the audits completed resulted in a 'Limited Assurance' level with 4% (1) obtaining 'No Assurance'. This is an increase of 19% of Full or Reasonable assurance being given for audits on the previous year and therefore a reduction of 19% in limited assurance results.

In addition, the number of High risk exceptions raised has reduced from 25 to 19 this year, however 1 Critical risk exception was raised in relation to Procurement compliance whereas no critical risk exceptions arose during 2019/20.

The implementation of 'Agreed Actions' from previous year's audits has been low. Only 27% of the agreed actions stated by Sections has been closed as part of the follow up testing undertaken. The reasoning given for the majority of the open exceptions is that managing the Covid pandemic has caused these actions to slip. While this is understandable, it should also be noted that the risks initially identified therefore do still remain open. A breakdown of these statistics is on page 9.

Significant work and discussions have been held throughout the year to aid in the management of governance issues arising from the Covid 19 pandemic. A Covid summary report reviewed 7 areas including 3 substantial grants received as part of the Government response to the pandemic. The results of these were generally positive, especially with regards to confirming the eligibility of the grants paid. Any errors which were found within the grants reviews, steps have been taken to reclaim that money. Audit will continue to provide assurance on the grants into the 2021/22 Audit Plan.

Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. 72% of audits completed obtained Reasonable or Full Assurance, therefore the Annual Audit Opinion for 2020/21 is Reasonable Assurance on the internal control governance and framework for risk management and control within Gosport Borough Council.

|              |                   |                      |                |
|--------------|-------------------|----------------------|----------------|
| No Assurance | Limited Assurance | Reasonable Assurance | Full Assurance |
|--------------|-------------------|----------------------|----------------|

2019/20 was the first full year in which the Authority conducted the audit process using a full risk based approach and some consideration is needed to be given that following the audit plan for

# ANNUAL GOVERNANCE STATEMENT

2020/21, around 35% of the full audit universe will have now been reviewed under this practice. While the early results have a positive element, future years results will allow for a more comprehensive and rounded view of the Authority's Governance, risk management and internal control framework.

Internal Audit will continue to work with Section Heads, the Assistant Chief Executive and the Chief Executive to improve on specific areas of control, risk management and governance weaknesses.

Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2020/21 may affect that year's work for External Audit. It may also inform their work for 2021/22 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.

## **Coronavirus Governance**

On the 17<sup>th</sup> March 2020, as a result of the global pandemic regarding Covid-19, Gosport Council moved to running business critical services only. This resulted in the majority of staff either working from home or being redeployed to critical services. GBC enacted its emergency procedures and created a Covid-19 Emergency Response Team lead by the Assistant Chief Executive. The composition of the team includes leads in the key areas of the Council deemed critical along with statutory officers such as the Monitoring Officer and Head of Emergency Planning. Decisions made by the Covid-19 Response group have been documented.

As part of the audit plan a number of Covid related grants and processes were audited to ensure the Council had managed the fast paced challenging environment created by the pandemic.

As a result of the global Covid 19 pandemic the Authority along with multiple agencies and organisations have responded and performed their role in safeguarding lives, maintaining critical services and functions and protecting the most vulnerable amongst our communities. The Authority has also administered government grants at pace and on some occasions against a changing framework. Internal Audit has aided the Authority in various activities one of which has been to provide independent assurance on normal activities, but also for those additional areas of service performed.

Significant work and discussions have been held throughout the year to aid in the management of governance issues arising from the Covid 19 pandemic. A Covid summary report reviewed 7 areas including 3 substantial grants received as part of the Government response to the pandemic. The results of these were generally positive, especially with regards to confirming the eligibility of the grants paid. Any errors which were found within the grants reviews, steps have been taken to reclaim that money. Audit will continue to provide assurance on the grants into the 2021/22 Audit Plan.

# ANNUAL GOVERNANCE STATEMENT

## Significant governance issues

The following governance issues have been identified as a result of the review of arrangements and by the work of external and internal audit in 2020/21.

| NO | YEAR RAISED | GOVERNANCE ISSUE   | SOURCE                 | ACTION   | PROGRESS TO DATE         | RESPONSIBLE OFFICER    |
|----|-------------|--|------------------------|--|--------------------------|------------------------|
| 1  | 2018/19     | Create and embed a new corporate risk management process                                 | Chief Executive        | Devise a new corporate risk management process which allows the Council to identify and manage its departmental and corporate risks. | Completed                | Chief Internal Auditor |
| 2  | 2018/19     | Internal Audit Service not compliant with Public Sector Internal Audit Standards (PSIAS) | Chief Internal Auditor | Implement the proposed actions to rectify the non-conformance highlighted as part of the PSIAS assessment                            | Completed                | Chief Internal Auditor |
| 3  | 2018/19     | Lack of Counter Fraud framework and resource   | Chief Internal Auditor | Key Fraud areas to be evaluated and determination made on the required provision   | Delayed due to Covid-19` | Chief Internal Auditor |
| 4  | 2018/19     | Departure of officer resulting in Statutory roles being vacant.                          | Chief Executive        | Personnel arrangements to fill vacant statutory roles to be put forward to Full Council  | Completed                | Chief Executive        |
| 5  | 2018/19     | Complaints against Councillors Procedure requires revision                               | Chief Executive        | Revise the complaints against Councillors procedure. Revisions to be considered by Full Council.                                     | Completed                | Chief Executive        |

# ANNUAL GOVERNANCE STATEMENT

| NO | YEAR RAISED | GOVERNANCE ISSUE  | SOURCE                 | ACTION  | PROGRESS TO DATE                                      | RESPONSIBLE OFFICER       |
|----|-------------|---|------------------------|---|---|---------------------------|
| 6  | 2019/20     | Post Covid-19 Assurance   | Chief Internal Auditor | Undertake post assurance checks on Covid-19 related directions/grants   | Ongoing   | Chief Internal Auditor    |
| 7  | 2020/21     | Procurement Compliance  | Chief Internal Auditor | An audit of Procurement has been conducted, together with work with Cipfa on potential improvements to the Corporate Procurement Regulations to address localised issues and anticipated national changes | Contract Procedure Rules are in a draft format        | Chief Executive           |
| 8  | 2020/21     | New ways of working in relation to pandemic, remote working, hybrid teams | Risk Register          | Meetings to be held with Section Heads re future service delivery and transition from current arrangements, factoring in results from staff survey and views from Leadership.                             | Meetings with Section Heads currently being arranged. | Assistant Chief Executive |
| 9  | 2020/21     | Significant increase in grants creating demand on stretched resources     | CMT                    | Business Grants process to be kept under review and recruitment being progressed. Regen related grants – resourcing currently under   | Ongoing   | Assistant Chief Executive |

# ANNUAL GOVERNANCE STATEMENT

| NO | YEAR RAISED | GOVERNANCE ISSUE   | SOURCE        | ACTION   | PROGRESS TO DATE  | RESPONSIBLE OFFICER           |
|----|-------------|--|---------------|--|---|-------------------------------|
|    |             |  |               | review with recruitment to existing vacant posts being progressed.   |   |                               |
| 10 | 2020/21     | Staff capacity and succession planning. In addition, staff wellbeing following the pandemic. | Risk Register | Review of vacant posts has been undertaken with job evaluation and design considered where posts have been hard to fill. Significant attention and support given to staff well-being during the pandemic and this will continue. | Ongoing   | Chief Executive               |
| 11 | 2020/21     | Compliance with GDPR and protecting the Council's information                                | Audit Report  | Actions have been put in place and are progressing to meet ongoing requirements of GDPR  | Ongoing progress. Follow up audit highlighted improvement | Senior Information Risk Owner |

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....

.....

**Leader of the Council**

**Chief Executive**

# AUDIT OPINION

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOSPORT BOROUGH COUNCIL

### Opinion

We have audited the financial statements of Gosport Borough Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement
- the related notes 1 to 37
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 11
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Gosport Borough Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of 12 months to March 2023 from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

# AUDIT OPINION

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;

We have nothing to report in these respects

In respect of the following we have matters to report by exception:

We report to you, if we are not satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weakness in the Authority's arrangements for the year ended 31 March 2021.

## **Significant weakness in arrangements**

### Our judgement on the nature of the weakness identified:

Internal Audit's Procurement report concluded a 'No Assurance' rating over Gosport Borough Council's overall procurement process based on the audit of two control areas:

1. Compliance with Policies, Laws and Regulations: No Assurance
2. Effectiveness and Efficiency of Operations: Limited Assurance

Internal Audit's testing was designed to assess compliance across three predominant controls:

# AUDIT OPINION

1. All procurement spend which occurred in three financial years (2018/19, 2019/20 and the period April 2020 to December 2020) has been in accordance with procurement regulations;
2. All procurement spend for the financial year 2020/21 has been undertaken using the Council's electronic procurement solution to ensure all bids (quotations and tenders) and supporting information are stored for management and transparency purposes; and
3. Where applicable, all contract spend has been recorded on the Council's contract register to enable the Council to comply with the Public Contracts Regulations 2015.

All three tests resulted in significant findings, driving the 'No Assurance' rating assigned to compliance.

The Council has developed an action plan responding to the review. As at the completion of our work in January 2022, of its thirteen action:

- Two were rated 'Complete'
- Seven were 'In Progress'
- Four had 'Not Yet Started'

A number have been subject to delays between action plan updates.

The evidence on which our view is based:

- Internal Audit's review of Procurement, published 8 July 2021
- Our review of the Council's progress against the subsequent Action Plan

The impact on the Gosport Borough Council:

The Council's procurement process is at risk of challenge by external suppliers, residents and the public.

The action the Council needs to take to address the weakness.

The Council needs to continue to implement the remaining items from the Action Plan in response to Internal Audit's procurement review, responding to the weaknesses identified.

Both Members and senior management should take a lead role promoting the updated procurement strategy and contract procedure rules, so that their application reinforces a change towards a compliance culture regarding procurement.

This issue is evidence of weaknesses in proper arrangements for:

- ensuring appropriate governance in the procurement of services by making informed decisions and properly managing its risks; and ensuring it can demonstrate compliance with appropriate legislative requirements, professional standards and internal policies;
- improving economy, efficiency and effectiveness by assessing whether it is realising the expected benefits when procuring services.

## **Responsibility of the Chief Finance Officer**

As explained more fully in the Statement of the Responsibilities set out on page 18, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

# AUDIT OPINION

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- o Local Government Act 1972,
- o Local Government and Housing Act 1989 (England and Wales),
- o Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- o Local Government Act 2003,
- o The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- o The Local Audit and Accountability Act 2014, and
- o The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of antibribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Gosport Borough Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance and the Monitoring Officer, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the council's committee minutes, through enquiry of employees to confirm council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus

on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

# AUDIT OPINION

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Gosport Borough Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Gosport Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Gosport Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

## **Use of our report**

This report is made solely to the members of Gosport Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

# AUDIT OPINION

Kevin Suter.

Ernst + Young LLP

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
18 March 2022

# GLOSSARY OF TERMS

## GLOSSARY OF TERMS

|                            |  |
|----------------------------|--|
| Accounting Period          | The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts   |
| Accounting Policies        | The principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in financial statements. Include <ul style="list-style-type: none"> <li>▪ recognising</li> <li>▪ selecting measurement bases</li> <li>▪ inclusion of assets, liabilities, gains, losses and changes to reserves</li> </ul>   |
| Accruals                   | The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.  |
| Agency Services            | Services performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out  |
| Actuary                    | An expert on pension scheme assets and liabilities   |
| Actuarial Gains & Losses   | Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: <ul style="list-style-type: none"> <li>• events have not coincided with the actuarial assumptions made for the last valuation</li> <li>• the actuarial assumptions have changed</li> </ul>   |
| Asset                      | Something the Council owns that has a value i.e. premises, property, vehicles, equipment, cash or a debt   |
| Authorised Limit           | This represents the legislative limit on the Council's external debt under the Local Government Act 2003   |
| Balance Sheet              | A statement of the recorded assets, liabilities and other balances at the end of an accounting period  |
| Billing Authority          | A local authority empowered to collect Council Tax and Business Rates, and manage the collection fund, on behalf of itself, local authorities in its area and the government   |
| Budget                     | A financial statement that expresses the Council's service delivery plans and capital programme in monetary terms  |
| Capital Adjustment Account | The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal.<br>It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded by capital under statute).<br>The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements. |
| Capital Expenditure        | Expenditure on the acquisition of a non-current asset or, expenditure which adds to and not merely maintains the value of an existing non-current asset. The asset may not be owned by the authority. Expenditure that does not fall within this definition must be charged to a revenue account.  |
| Capital Financing Charges  | The annual charge to the revenue account in respect of interest and principal repayments and payments of borrowed money, together with leasing rentals   |
| Capital Receipts           | Income from the sale of fixed assets. Capital receipts cannot be used to fund revenue services.  |
| Collection Fund            | The separate fund, administered by billing authorities, recording the expenditure and income relating to Council Tax and Non Domestic Rates  |
| Community Assets           | Fixed Assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal e.g. Parks   |

# GLOSSARY OF TERMS

|                                  |   |
|----------------------------------|---|
| Componentisation                 | The identification and recording of the components of an asset in order to more accurately charge depreciation - includes the separate identification and derecognition of components as they are replaced.   |
| Contingency                      | Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets   |
| Contingent Liabilities or Assets | Amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts   |
| Council Tax                      | The main source of local taxation to Local Authorities. Council Tax is levied on households within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund  |
| Council Tax Requirement          | The estimated revenue expenditure on General Fund services that needs to be financed from Council Tax after deducting income from fees and charges, grants and any funding from reserves  |
| Creditors                        | Amounts owed by the Council for goods and services received, but not paid for at the end of the financial year  |
| Debtors                          | Amounts owed to the Council for work or services rendered but not paid for by the end of the financial year.  |
| Deferred Liabilities             | Liabilities payable beyond the next year at some point in the future or paid off by an annual sum over a period of time   |
| Deferred Capital Receipts        | Amounts from the sale of assets, which will be received in the future or in instalments over agreed periods of time   |
| Depreciation                     | The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset  |
| Derecognition                    | Assets are removed from the Balance Sheet in total or in part when disposed of - whether by sale, demolition, abandonment, obsolescence, replacement etc. Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.  |
| Discounts                        | Discounts represent the outstanding discount received on the premature repayment of Public Works Loan Board loans. In line with the Code, gains arising from the repurchase or early settlement of borrowing are written back to revenue – but where the repurchase or borrowing was coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains are recognised over the life of the replacement loan. |
| Expenditure                      | Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for   |
| Exceptional Items                | Material items deriving from events or transactions that fall within the ordinary activities of the Authority, but which need to be separately disclosed by virtue of their size and/ or incidence to give a fair presentation of the accounts.   |
| Fair Value                       | Fair value is the price at which an asset could be exchanged in an arm's length transaction between knowledgeable willing parties   |
| Finance Lease                    | A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee  |
| Financial Instruments            | Any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis  |
| Fixed Assets                     | Tangible or intangible assets that yield benefit to the Council for more than one year. Generally, further classified into Property, Plant and Equipment; Heritage Assets; Investment Property and Intangible Assets. Also known as Long Term or Non- Current Assets  |
| Financial Regulations            | The written code of procedures approved by the Council, intended to provide a framework for proper financial management. Financial regulations usually set  |

# GLOSSARY OF TERMS

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|  | out rules on accounting, audit, administrative and budgeting procedures  |
| General Fund                                       | The main revenue fund of the Council, it includes income and expenditure on the Council's day to day activities – excluding those of the Housing Revenue Account   |
| Group Accounts                                     | Group Accounts consolidate the financial results of the Council, any of its subsidiaries and/or associates. The Council is not required to produce these due to materiality.   |
| Heritage Assets                                    | Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture   |
| Housing Benefit                                    | This is an allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by Local Authorities but Central Government refunds part of the cost of the benefits and of the running costs of the services to Local Authorities. Benefits paid to the Authority's own tenants are known as rent rebate and that paid to private tenants as rent allowances. |
| Housing Revenue Account (HRA)                      | Local Authorities are required to maintain a separate account - the HRA which sets out the income from and expenditure on the provision of council housing.  |
| Impairment   | A reduction in the value of a non-current asset below its carrying amount in the balance sheet. At the end of each reporting period, an assessment of assets must take place to identify any potential impairments   |
| Infrastructure Assets                              | Fixed Assets which generally cannot be sold and from which benefit can be obtained only by continued use of the asset created. I.e. footpaths, bridges, coast protection works   |
| International Financial Reporting Standards (IFRS) | Defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of the other entities.  |
| Income   | Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received  |
| Intangible Assets                                  | Assets that do not have a physical form i.e. software and licences   |
| Investment Properties                              | Properties that are held solely for appreciation or income generation  |
| Leases - General                                   | Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating. The lessor leases the asset to the lessee. The Council is both lessee and lessor  |
| Leases - Finance Lease                             | A lease or lease type arrangement whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet  |
| Lease - Operating Lease                            | Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure  |
| Liabilities  | Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date  |
| Major Repairs Allowance (MRA)                      | The MRA was a government grant for capital expenditure to maintain the housing stock to a good standard. After a transition period that ended in 2016/17, it was dropped in favour of fully componentised depreciation accounting  |
| Major Repairs Reserve (MRR)                        | This reserve is restricted to being applied towards new capital expenditure, the repayment of HRA debt and meeting liabilities under credit arrangements   |
| Minimum Revenue Provision (MRP)                    | The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes  |

# GLOSSARY OF TERMS

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| National Non Domestic Rates (NNDR) (also known as Business Rates) | Effective from 1 April 2013, the Business Rates Retention enables a proportion of the Business Rates collected to be retained locally by billing and precepting authorities with the balance being paid over to central government. There is therefore the potential reward of additional income or indeed reduced income, subject to the safety net. The scheme is subject to centrally set targets and thresholds as well as a complex system of tariffs, top-ups, safety nets and levies. |
| Net Book Value (NBV)  | The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation  |
| Operational Boundary  | This reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.  |
| Pension - Current Service Cost                                    | The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period. i.e. the pension benefits “earned” by employees in the current year’s employment net of contributions paid  |
| Pension - Past service costs                                      | The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years  |
| Pension - Interest on the Net Defined Benefit Liability (Asset),  | The change during the period in the net defined benefit liability (asset) that arises from the passage of time - calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.                       |
| Pension - Actuarial gains and losses                              | Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions   |
| Pension - Past Service Cost                                       | Discretionary benefits awarded on early retirement are treated as past service costs   |
| Pension – Strain on Pension Fund Contribution                     | Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow  |
| Pension - Curtailment   | Curtailements show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year  |
| Precepts  | The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.  |
| Prior Period Adjustments  | These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors   |
| Provision   | An amount held in a reserve for a liability of uncertain timing or amount  |
| Public Works Loan Board (PWLB)                                    | An arm of Central Government which is the major provider of loans to finance long term funding requirements for Local Authorities  |
| Related Parties   | Related parties are Central Government, other Local Authorities, precepting and levying bodies, any subsidiary and associated companies, elected members, all senior officers and the Pension Fund.<br>For individuals, related parties includes members of the close family, or the same household; and partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.                       |
| Revaluation Reserve   | The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).   |
| Revenue   | The method of financing capital expenditure directly from revenue  |

# GLOSSARY OF TERMS

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|---|---|
| Contribution                                |   |
| Revenue Expenditure                         | Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs   |
| Revenue Support Grant                       | A central government grant paid each year as a general contribution towards the cost of the Council's services  |
| Service Reporting Code of Practice (SeRCOP) | Prepared and published by CIPFA , the Service Reporting Code of Practice (SeRCOP) replaced the previous Best Value Accounting Code of Practice (BVACOP). It is reviewed annually to ensure that it develops in line with the needs of modern Local Government, Transparency, Best Value and public services reform. SeRCOP establishes proper practices with regard to consistent financial reporting for services and in England and Wales, it is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003. |
| The Code                                    | The CIPFA Code of Practice which is based on and compliant with International Financial Reporting Standards (IFRS) and which governs the preparation of the Council's financial statements  |
| Treasury Management                         | This is the process by which the Council controls its cash flow and its borrowing and lending activities  |
| Treasury Management Strategy (TMS)          | A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council  |
| Usable Reserves                             | Reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure)   |
| Unsupported (Prudential) Borrowing          | This is borrowing for which no financial support is provided by Central Government. The borrowing costs are met from current revenue budgets  |
| Unusable Reserves                           | Reserves that are not used to provide services - but that represent <ul style="list-style-type: none"> <li>▪ unrealised gains and losses (i.e. where amounts would only become available to provide services if the assets are sold) and</li> <li>▪ timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (i.e. depreciation)</li> </ul>   |